

COVER SHEET

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S.E.C. Registration Number

L O R E N Z O S H I P P I N G
C O R P O R A T I O N

(Company's Full Name)

2 0 T H F L O O R , T I M E S P L A Z A B L D G . ,
U N I T E D N A T I O N S A V E N U E ,
E R M I T A , M A N I L A

(Business Address: No. Street City / Town / Province)

EDNA F. MENDIOLA

Contact Person

567-2180

Company Telephone Number

0 9 3 0 2 0 1 4

Month Day Year
Fiscal Year

1 7 Q

FORM TYPE

0 6 2 6 2 0 1 4

Month Day Year
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Dept. Requiring this Doc.

Amended Articles Number/Section

Amended Articles Number/Section

Total no. of Stockholders

Total no. of Stockholders

Total Amount of Borrowings

Domestic

Domestic

Foreign

Foreign

To be accomplished by SEC Personnel concerned

File Number

File Number

LCU

LCU

Document I.D.

Document I.D.

Cashier

Cashier

STAMPS

Remarks = please use **black ink** for scanning purposes

SEC Number 48909

FILE Number _____

LORENZO SHIPPING CORPORATION

(Registrant's Full Name)

20TH FLOOR, TIMES PLAZA BUILDING
UNITED NATIONS AVENUE, ERMITA, MANILA

(Registrant's Address)

(632) 567-21-71 TO 80

Telephone Numbers

September 30, 2014

(Quarter Ending)

QUARTERLY INTERIM FINANCIAL STATEMENTS (SEC FORM 17-Q)

(Form Type)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT TO SECTION 17 OF THE
SECURITIES REGULATION CODE AND SRC RULE 17 (2) (b) THEREUNDER

1. For the quarterly period ended: **30 September 2014**
2. Commission Identification Number: **48909**
3. BIR Tax Identification Number: **000-628-958**
4. Exact name of registrant as specified in its charter:
Lorenzo Shipping Corporation
5. Province, country or other jurisdiction of incorporation or organization:
Manila, Philippines
6. Industry classification code: (SEC Use Only)
7. Address of registrant's principal office: Postal code: **1006**
20th Floor, Times Plaza Building, United Nations Avenue, Ermita, Manila
8. Registrant's telephone number including area code:
(632) 567-2171 to 80
9. Former name, former address and former fiscal year, if changed since last report:
**Pier 6/10 North Harbor,
Tondo, Manila**
10. Securities registered pursuant to SRC Rule 68.1
- | Title of Each Class | Number of Shares
Issued and outstanding |
|---------------------|--|
| Common Stock | 554,642,251 |
| Preferred Stock | |
11. Are any or all of the securities listed on the Philippine Stock Exchange?
Yes No

12. Indicate by check mark whether the registrant:

(a.) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceeding 12 months (or for such shorter period the registrant was required to file such reports.

Yes

No

(b.) has been subject to such filing requirement for the past 90 days.

Yes

No

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

Financial Statements and if applicable, Pro-Forma Financial Statements meeting the requirements of SRC Rule 68.1. Form and Content of Financial Statements, shall be furnished as specified therein.

Please refer to attached Exhibit 1

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

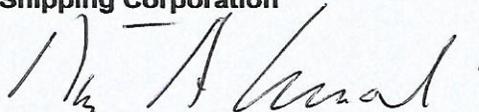
Please refer to Exhibit 2
Please refer to Schedule A
Please refer to Schedule B
Please refer to Schedule C

SIGNATORIES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on it behalf by the undersigned thereunto duly authorized.

Lorenzo Shipping Corporation

by:


ROBERTO A. UMALI
President

Date.....


EDNA F. MENDIOLA
VP-Finance

Date...10/29/14.....

LORENZO SHIPPING CORPORATION
BALANCE SHEETS
As of September 30, 2014 and December 31, 2013
(Currency Expressed in Philippine Peso)

| | ASSETS | |
|--|--|--|
| | Unaudited September 30 2014 | Audited December 31, 2013 |
| CURRENT ASSETS | | |
| Cash | 43,891,320 | 110,679,599 |
| Trade and other receivables - net | 1,120,967,130 | 890,182,268 |
| Inventories - at costs | 29,658,980 | 29,883,989 |
| Prepayments and other current assets | 193,767,902 | 177,383,196 |
| TOTAL CURRENT ASSETS | 1,388,285,332 | 1,208,129,053 |
| NON-CURRENT ASSETS | | |
| Property and equipment, net | 1,611,518,547 | 1,652,972,770 |
| Deferred income tax asset | 55,944,263 | 53,247,312 |
| Miscellaneous deposits and others | 10,966,555 | 11,084,633 |
| TOTAL NON-CURRENT ASSETS | 1,678,429,365 | 1,717,304,715 |
| TOTAL ASSETS | 3,066,714,697 | 2,925,433,768 |
| LIABILITIES | | |
| CURRENT LIABILITIES | | |
| Accounts Payable and Accrued Expenses | 593,863,157 | 486,400,234 |
| Short-term borrowings | 402,158,822 | 232,458,822 |
| Current portion of obligations under finance lease | 28,811,668 | 31,997,429 |
| Current portion of Long-Term Debts | 148,901,428 | 411,871,048 |
| TOTAL CURRENT LIABILITIES | 1,173,735,075 | 1,162,727,533 |
| NON-CURRENT LIABILITIES | | |
| Long-Term Debts, Net of current portion | 444,491,441 | 299,269,321 |
| Obligations under finance lease - net of current portion | 108,212,576 | 130,159,204 |
| Pension obligation | 108,497,076 | 110,677,483 |
| TOTAL NON-CURRENT LIABILITIES | 661,201,093 | 540,106,008 |
| TOTAL LIABILITIES | 1,834,936,168 | 1,702,833,540 |
| STOCKHOLDERS' EQUITY | | |
| EQUITY | | |
| Common Shares | 555,652,251 | 555,652,251 |
| Additional paid-in capital | 459,791,492 | 459,791,492 |
| Treasury Shares | (3,125,850) | (3,125,850) |
| Actuarial Gain (Loss) on Pension Liabil | (29,198,893) | (29,198,893) |
| Retained Earnings | 248,659,529 | 239,481,227 |
| TOTAL EQUITY | 1,231,778,529 | 1,222,600,227 |
| TOTAL LIABILITIES & STOCKHOLDER'S EQUITY | 3,066,714,697 | 2,925,433,768 |

LORENZO SHIPPING CORPORATION
STATEMENTS OF INCOME
For the Period Ended September 30, 2014 and 2013
(Currency Expressed in Philippine Peso)

| 2013 | 2013 | | 2014 | 2014 |
|----------------------------|----------------------------|--|-------------------------|-------------------------|
| Jan-Sept | Jul-Sept | | Jan-September | Jul-Sept |
| | | REVENUES | | |
| 1,364,271,197 | 413,695,847 | Freight | 1,482,512,766 | 502,596,936 |
| <u>1,364,271,197</u> | <u>413,695,847</u> | Total | <u>1,482,512,766</u> | <u>502,596,936</u> |
| | | DIRECT COSTS | | |
| 1,084,091,904 | 365,764,716 | Cost of services | 1,127,555,379 | 398,144,110 |
| 179,131,642 | 59,567,908 | Terminal expenses | 163,303,717 | 55,556,913 |
| <u>1,263,223,547</u> | <u>425,332,624</u> | Total | <u>1,290,859,096</u> | <u>453,701,022</u> |
| 101,047,651 | (11,636,777) | GROSS PROFIT | 191,653,669 | 48,895,913 |
| (125,671,434) | (43,026,593) | GENERAL AND ADMINISTRATIVE EXPENSES | (120,215,504) | (38,935,080) |
| (23,559,779) | (9,926,014) | FINANCE COSTS AND OTHER CHARGES | (33,712,816) | (15,365,077) |
| 21,574,394 | 1,844,397 | OTHER INCOME | (29,066,571) | 4,390,399 |
| <u>(26,609,168)</u> | <u>(62,744,987)</u> | INCOME BEFORE INCOME TAX | <u>8,658,779</u> | <u>(1,013,845)</u> |
| (4,372,484) | (10,171,932) | PROVISION FOR INCOME TAX | (496,798) | (665,448) |
| <u>(22,236,684)</u> | <u>(52,573,055)</u> | NET INCOME | <u>9,155,577</u> | <u>(348,397)</u> |
| (0.04) | (0.09) | EARNING PER SHARE | | |
| | | Basic / Diluted | 0.02 | (0.00) |

LORENZO SHIPPING CORPORATION
UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME
For the Period Ended September 30, 2014 and 2013
(Currency Expressed in Philippine Peso)

| 2013 | 2013 | | 2014 | 2014 |
|---------------------|---------------------|-----------------------------------|----------------------|------------------|
| Jan-Sept | Jul-Sept | | Jan-September | Jul-Sept |
| (22,236,684) | (52,573,055) | NET INCOME | 9,155,577 | (348,397) |
| - | - | OTHER COMPREHENSIVE INCOME | - | - |
| <u>(22,236,684)</u> | <u>(52,573,055)</u> | TOTAL COMPREHENSIVE INCOME | <u>9,155,577</u> | <u>(348,397)</u> |

UNAUDITED STATEMENT OF CHANGES IN EQUITY
For the Nine Months Ended September 30, 2014 and 2013

(Currency Expressed in Philippine Peso)

| | Capital Stock | Additional Paid-In Capital | Treasury Shares | Actuarial Losses on Defined Benefit Plan | Retained Earnings Unappropriated | Total |
|---------------------------------------|--------------------|-------------------------------|--------------------|--|-------------------------------------|----------------------|
| Balances at December 31, 2013 | 555,652,251 | 459,791,492 | (3,125,850) | (29,198,893) | 239,481,220 | 1,222,600,220 |
| Net income for the period | - | - | - | - | 9,155,577 | 9,155,577 |
| Cash Dividends Declared | - | - | - | - | - | - |
| Balances at September 30, 2014 | 555,652,251 | 459,791,492 | (3,125,850) | (29,198,893) | 248,636,797 | 1,231,755,797 |
| Balances at December 31, 2012 | 555,652,251 | 459,791,492 | (3,125,850) | - | 242,431,789 | 1,254,749,682 |
| Net income for the period | - | - | - | - | (22,236,684) | (22,236,684) |
| Cash Dividends Declared | - | - | - | - | - | - |
| Balances at September 30, 2013 | 555,652,251 | 459,791,492 | (3,125,850) | - | 220,195,105 | 1,232,512,998 |

LORENZO SHIPPING CORPORATION
COMPARATIVE CASH FLOW STATEMENT
As of September 30, 2014 and 2013
(Currency Expressed in Philippine Peso)

| | 2014 September | 2013 September |
|--|---------------------------------|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before provision for income tax | 8,658,779 | (26,609,168) |
| Adjustments: | | |
| Provision for: | | |
| Doubtful accounts | 1,500,000 | 6,201,734 |
| Depreciation /Amortization | 192,027,936 | 242,152,231 |
| Interest Income | (170,388) | (561,364) |
| Interest Expense | 28,471,222 | 24,747,681 |
| Loss (Gain) on: | | |
| Disposal of property and equipment | 38,822,190 | (1,923,586) |
| Foreign currency translation | 2,472,802 | (560,011) |
| Operating income before working capital changes | 271,782,541 | 243,447,518 |
| (Increase) in current assets | | |
| Receivables | (232,284,862) | (128,441,389) |
| Prepayments | (16,159,696) | (34,641,588) |
| Increase (decrease) in accounts payable and accrued expenses | 102,809,714 | 95,820,865 |
| Cash generated from operations | 126,147,696 | 176,185,406 |
| Income tax paid through Tax Credits | (2,200,153) | (1,146,021) |
| Net cash flow provided by operating activities | 123,947,544 | 175,039,385 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Decrease (Increase) in: | | |
| Other assets | 118,078 | (154,992) |
| Acquisition of property and equipment | (219,860,539) | (297,595,771) |
| Proceeds from disposal of property and equipment | 30,464,635 | 3,270,434 |
| Interest received | 170,388 | 561,364 |
| Net cash flow used in investing activities | (189,107,439) | (293,918,965) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (Decrease) in: | | |
| Obligations under finance lease | (25,132,388) | 21,723,041 |
| Payment of short-term loans | (135,300,000) | (45,700,000) |
| Proceeds from short-terms loans | 305,000,000 | 145,000,000 |
| Proceeds from long-terms loans payable | - | - |
| Payment of long-term loans | (117,747,500) | (94,165,000) |
| Interest paid | (28,471,222) | (27,370,841) |
| Net cash flow provided by (used in) financing activities | (1,628,384) | (14,378,856) |
| NET DECREASE IN CASH ON HAND AND IN BANKS DURING THE PERIOD | (66,788,279) | (133,258,436) |
| EFFECTS OF FOREIGN EXCHANGE RATE | | |
| CASH ON HAND AND IN BANKS | | |
| Beginning | 110,679,599 | 191,193,593 |
| Ending | 43,891,320 | 57,935,157 |

LORENZO SHIPPING CORPORATION

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Lorenzo Shipping Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on October 17, 1972 primarily to engage in domestic inter-island cargo shipping activities.

Since 2006, the Company is majority-owned by National Marine Corporation (NMC), a domestic shipping company (see Note 23).

The Company's common shares of stock are traded in the Philippine Stock Exchange (PSE).

The Company is a holder of several Certificates of Convenience and special permits issued by the Maritime Industry Authority to service certain domestic ports of call.

The Company's registered and principal business address is 20th Floor Times Plaza Building, United Nations Avenue, Ermita, Manila.

2. Basis of Preparation, Statements of Compliance and Changes in Accounting Policies and Disclosures

Basis of Presentation

The accompanying financial statements have been prepared under the historical cost and are presented in Philippine peso, which is the Company's functional and presentation currency.

The financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional balance sheet at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement or a reclassification of items in the financial statements. An additional balance sheet as at January 1, 2012 is presented in these financial statements due to retrospective application of certain accounting policies.

Statement of Compliance

The financial statements of the Company have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and revised standards and IFRIC which were applied starting January 1, 2013. Except for the adoption of Revised PAS 19, *Employee Benefit*, these new and revised standards and interpretations did not have any significant impact on the Company's financial statements.

The nature and the impact of each new standard and amendment are described below:

PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The net amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
 - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
 - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The adoption of the amended did not have a significant impact on the financial statements of the Company.

PFRS 10, Consolidated Financial Statements

PFRS 10 replaces the portion of PAS 27 that addresses the accounting for consolidated financial statements. It also includes the issues raised in Standards Interpretation Committee (SIC) 12, *Consolidation - Special Purpose Entities*. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The amendment is not applicable to the Company.

PFRS 11, Joint Arrangements

PFRS 11 replaces PAS 31, *Interest in Joint Ventures* and SIC 13, *Jointly-controlled Entities - Non-Monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. The amendment is not applicable to the Company.

PFRS 12, Disclosure of Interests in Other Entities

PFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in PFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries (for example, where a subsidiary is controlled with less than a majority of voting rights). The amendment is not applicable to the Company.

PFRS 13, Fair Value Measurement

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS. PFRS 13 defines fair value as an exit price. PFRS 13 also requires additional disclosures.

As a result of the guidance in PFRS 13, the Company re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. The Company has assessed that the application of PFRS 13 has not materially impacted its fair value measurements. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 25.

Amendment to PAS 1, Financial Statement Presentation - Presentation of Items of Other Comprehensive Income

The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or “recycled”) to profit or loss at a future point in time (i.e., upon derecognition or settlement) would be presented separately from items that will never be recycled. The amendment affects presentation only and has no impact on the Company’s financial position or performance. The amendments affect presentation only and have no impact on the Company’s financial position or performance.

Revised PAS 19, Employee Benefits

On 1 January 2013, the Company adopted Revised PAS 19, *Employee Benefits*.

For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Company recognized actuarial gains and losses immediately to profit or loss while past service cost, if any, is recognized immediately to profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service cost is amortized on a straight-line basis over the vesting period. Upon adoption of the PAS 19 Revised, the Company changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.

Moving forward, the Company will retain the recognized actuarial gains and losses in other comprehensive income and will not transfer this to other items of equity.

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee’s entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any impact on the Company's financial position and financial performance.

The changes in accounting policies have been applied retrospectively. The effects of first time adoption of the Revised PAS 19 on the financial statements are as follows:

| | As of December 31, 2013 | As of December 31, 2012 | As of January 1, 2012 |
|---|--|-------------------------------|-----------------------------|
| Increase (decrease) in: | | | |
| <u>Balance Sheets</u> | | | |
| Pension obligation | ₱40,931,207 | ₱9,486,903 | (₱4,126,855) |
| Deferred income tax asset | (12,279,360) | (2,846,068) | 1,238,057 |
| Other comprehensive income | (29,198,893) | (7,232,429) | 2,888,799 |
| Retained earnings | 546,737 | 591,285 | - |
| | | 2013 | 2012 |
| Increase (decrease) in: | | | |
| <u>Statements of Income</u> | | | |
| Net benefit costs | | ₱63,640 | (₱844,693) |
| Provision for deferred tax | | (19,092) | 253,408 |
| Net loss (profit) for the year | | ₱44,548 | (₱591,285) |
| | | 2013 | 2012 |
| <u>Statements of Comprehensive Income</u> | | | |
| Actuarial losses on defined benefit plan | | ₱31,380,663 | ₱14,458,895 |
| Income tax effects | | (9,414,199) | (4,337,667) |
| Other comprehensive loss for the year, net of tax | | 21,966,464 | 10,121,228 |
| Total comprehensive loss for the year | | ₱22,011,012 | ₱9,529,942 |

Other than the change in income before income tax, there is no material impact in the statements of cash flows.

Revised PAS 27, *Separate Financial Statements* (as revised in 2011)

As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities* what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The adoption of the amended PAS 27 did not have a significant impact on the financial statements of the Company.

Revised PAS 28, *Investments in Associates and Joint Ventures*

As a consequence of the new PFRS 11, *Joint Arrangements* and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the applications of the equity method to investments in joint ventures in addition to associates. The amendment is not applicable to the Company.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*

This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. The amendment is not applicable to the Company.

PFRS 1, First-time Adoption of International Financial Reporting Standards - Government Loans (Amendments)

The amendments to PFRS 1 require first-time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 39, *Financial Instruments: Recognition and Measurement*, and PAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for those loans. These amendments are not relevant to the Company.

Annual Improvements to PFRSs (2009-2011 cycle)

The *Annual Improvements to PFRSs* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRSs.

PFRS 1, First-time Adoption of PFRS - Borrowing Costs

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Company as it is not a first-time adopter of PFRS.

PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information

These amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. As a result, the Company has not included comparative information in respect of the opening statement of financial position as at January 1, 2012. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

PAS 16, Property, Plant and Equipment - Classification of Servicing Equipment

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment does not have any significant impact on the Company's financial position or performance.

PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12, *Income Taxes*. The amendment does not have any significant impact on the Company's financial position or performance.

PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

New standards and interpretation issued and effective after December 31, 2013

The Company will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)

These amendments remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36.

In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

Investment Entities (Amendments to PFRS 10, PFRS 12 and PAS 27)

These amendments are effective for annual periods beginning on or after January 1, 2014. They provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Company.

Philippine Interpretation IFRIC 21, Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company does not expect that IFRIC 21 will have material financial impact in future financial statements.

PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after January 1, 2014. The Company has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)

The amendments clarify the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Company’s financial position or performance. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014.

PAS 19, Employee Benefits - Defined Benefit Plans: Employee Contributions (Amendments)

The amendments apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans. The amendments to PAS 19 are to be retrospectively applied for annual periods beginning on or after July 1, 2014.

Annual Improvements to PFRSs (2010-2012 cycle)

The Annual Improvements to PFRSs (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 2, Share-based Payment - Definition of Vesting Condition

The amendment revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment shall be prospectively applied to share-based payment transactions for which the grant date is on or after July 1, 2014. This amendment does not apply to the Company as it has no share-based payments.

PFRS 3, Business Combinations - Accounting for Contingent Consideration in a Business Combination

The amendment clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). The amendment shall be prospectively applied to business combinations for which the acquisition date is on or after July 1, 2014. The Company shall consider this amendment for future business combinations.

PFRS 8, Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments’ Assets to the Entity’s Assets

The amendments require entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments’ assets to the entity’s assets if such amounts are regularly provided to the chief operating decision maker. These amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company’s financial position or performance.

PFRS 13, Fair Value Measurement - Short-term Receivables and Payables

The amendment clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

PAS 16, Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation

The amendment clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment is effective for annual periods beginning on or after July 1, 2014. The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Company's financial position or performance.

PAS 24, Related Party Disclosures - Key Management Personnel

The amendments clarify that an entity is a related party of the reporting entity if the said entity, or any member of a Company for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

PAS 38, Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization

The amendments clarify that, upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:

- a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
- b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Company's financial position or performance.

Annual Improvements to PFRSs (2011-2013 cycle)

The Annual Improvements to PFRSs (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Meaning of 'Effective PFRSs'

The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but that permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements. This amendment is not applicable to the Company as it is not a first-time adopter of PFRS.

PFRS 3, Business Combinations - Scope Exceptions for Joint Arrangements

The amendment clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment have no impact on the Company's financial position and performance.

PFRS 13, Fair Value Measurement - Portfolio Exception

The amendment clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1 2014 and is applied prospectively. The amendment has no significant impact on the Company's financial position or performance.

PAS 40, Investment Property

The amendment clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment have no significant impact on the Company's financial position or performance.

PFRS 9, Financial Instruments

PFRS 9, as issued, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will

have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. PFRS 9 may be applied before the completion of the limited amendments to the classification and measurement model and impairment methodology. The Company will not adopt the standard before the completion of the limited amendments and the second phase of the project.

Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

3. Summary of Significant Accounting Policies

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents

Cash includes cash on hand and in banks, which are carried at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

Financial Instruments

Date of recognition

The Company recognizes a financial asset or financial liability in the balance sheet when it becomes a party to contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Initial recognition of financial instruments

All financial instruments, including investment securities and loans and receivables, are initially measured at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Company classifies its financial instruments in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) investments, loans and receivables, financial liabilities at FVPL, and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and whether they are quoted in an active market. Management

determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting period.

As of September 30, 2014 and December 31, 2013, the Company does not have outstanding financial asset at FVPL, HTM investments, AFS investments, and financial liabilities at FVPL.

Embedded derivatives

An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
- the hybrid or combined instrument is not recognized at FVPL.

Freestanding and separated embedded derivatives are classified as financial assets or financial liabilities at FVPL unless they are designated as effective hedging instruments. Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Gains and losses from changes in fair value of derivatives are recognized immediately in the statement of income.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

As of September 30, 2014 and December 31, 2013, the Company has no bifurcated embedded derivatives.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are carried at amortized cost using the effective interest rate method less any accumulated allowance for impairment, if any. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are classified as current assets when it is expected to be realized within twelve months after the balance sheet date or within the normal operating cycle, whichever is longer.

The Company's cash and cash equivalents, trade and other receivables, loans receivables, deposits and others included under noncurrent assets are classified under this category (see Note 25).

Other financial liabilities

Issued financial liabilities or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial liabilities that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in the statement of income.

Other financial liabilities are classified as current liabilities when it is expected to be settled within twelve months after the balance sheet date or the Company has an unconditional right to defer settlement for at least 12 months from the balance sheet date.

The Company's interest-bearing borrowings, accounts payable and accrued expenses, obligations under finance lease and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable) are classified under this category (see Note 25).

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new

liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Impairment of Financial Assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the statement of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment loss is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through the use of an allowance account.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS investments

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as AFS financial assets are impaired.

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the statement of income, is transferred from other comprehensive income to the statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in the statement of income.

Reversals of impairment losses on debt instruments are reversed through the statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

Day 1 Profit or Loss

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is recognized in the statement of income only when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit or loss amount.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

| | | |
|-----------------------------|---|--|
| Materials and spare parts | - | purchase cost using first-in, first-out method |
| Fuel, diesel and lubricants | - | purchase cost using first-in, first-out method |

Net realizable value is the estimated replacement costs.

An allowance for losses and obsolescence is determined based on a regular review and management evaluation of movement and condition of spare parts and supplies.

Property and Equipment

Property and equipment, except for land, are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment when that cost is incurred, if the recognition criteria are met.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Company. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged in the statement of income in the period in which the costs are incurred. Land is stated at cost less any accumulated impairment in value.

Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Depreciation is computed on a straight-line basis less its residual value over the estimated useful life (EUL) as follows:

| <u>Category</u> | <u>Number of Years</u> |
|---|------------------------|
| Land improvements | 3 |
| Vessels, excluding drydocking costs and vessel tools and equipment | 35* |
| Drydocking costs | 3 |
| Container vans and improvements | 5-10 |
| Buildings, warehouses, terminal premises and equipment and leasehold improvements | 3-10 |
| Office furniture and equipment | 5 |
| Transportation equipment | 5 |
| Vessel tools and equipment | 5 |

**From the time the ship was built*

The remaining EUL of the vessels range from 2 to 23 years.

The asset's residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at each balance sheet date.

Major overhaul costs incurred during drydocking of vessels are capitalized and depreciated over a 3-year period or the next drydocking, whichever comes first. When significant drydocking costs are incurred prior to the expiry of the 3-year depreciation period, the remaining costs of the previous drydocking are written off in the period of the subsequent drydocking. Drydocking costs are recorded as part of "Vessels" under property and equipment.

Fully depreciated assets are retained in the accounts until these are no longer in use. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from the continued use of the item. Any gain or loss arising on derecognition of the property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of income in the year the asset is derecognized.

The carrying amount of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable.

Investment in Associate

An associate is an entity in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company. An associate is accounted for under the equity method of accounting.

Under the equity method, investment in an associate is carried in the balance sheet at cost plus post-acquisition changes in the Company's share in the net asset of the associate. The statement of income reflects the share in the result of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Company recognizes its share in any changes and discloses this, when applicable, in the statement of income. Profit and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment

in the associate.

The Company discontinues the use of equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in PAS 31. Upon loss of significant influence over the associate, the Company measures and recognizes any retaining investment at its fair value. Any difference in the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. When the Company's interest in an investment in associate is reduced to zero, additional losses are provided only to the extent that the Company has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Company has guaranteed or otherwise committed. If the associate subsequently reports profits, the Company resumes recognizing its share of the profits if it equals the share of net losses not recognized.

The financial statements of the associate are prepared for the same reporting period as the Company. The accounting policies of the associate conform to those used by the Company for like transactions and events in similar circumstances.

Impairment of Non-financial Assets

The Company assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for a non-financial asset is required, the Company makes an estimate of the non-financial asset's recoverable amount. A non-financial asset's recoverable amount is the higher of a non-financial asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual non-financial asset, unless the non-financial asset does not generate cash inflows that are largely independent of those from other non-financial assets or groups of non-financial assets. Where the carrying amount of a non-financial asset exceeds its recoverable amount, the non-financial asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the non-financial asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired non-financial asset.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the non-financial asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the non-financial asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the non-financial asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation charge is adjusted in future periods to allocate the non-financial asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account

contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognized:

Freight revenues

Revenues derived from freight services are recognized on the basis of cargo loaded during the year taking into account all direct costs related to the cargo as well as capacity costs incurred during the year.

Interest income

Interest income from bank deposits and short-term investments (net of tax) is recognized as interest accrues (using the effective interest rate method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Rental income

Revenue is recognized on a straight-line basis over the lease term.

Cost and Expenses

Cost and expenses are decreases in economic benefits during the accounting period in the form of outflows or decrease of assets or incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Cost and expenses are recognized when incurred.

Provisions

Provisions are recognized only when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursements. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain project financing. Deferred financing costs are amortized, using the effective interest rate method, over the term of the related long-term borrowing.

Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the balance sheet date.

Deferred income tax

Deferred income tax is provided using the balance sheet liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of taxable temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforward benefits of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of deductible temporary differences associated with investments in foreign subsidiaries and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable income will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable

right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of income.

Value-added taxes (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Capital Stock

Capital stock is determined using the par value shares that have been issued. When the Company issues more than one class of stock, a separate account is maintained for each class of stock and number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. When the shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Company, the shares shall be measured either at fair value of the share issued or fair value of the liability settled, whichever is more reliably determinable.

Treasury Stock

The Company's own equity instruments which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the statement of income on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Retained Earnings

The amount included in retained earnings includes profit or loss attributable to the Company's equity holders and reduced by dividends on common stock. Retained earnings may also include effect of changes in accounting policies as may be required by the standards' transitional provisions.

Pension Cost

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset

- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Earnings Per Share (EPS)

Basic EPS is calculated by dividing net income for the year attributable to common shareholders by the number of share issued and outstanding at the end of the year after giving retroactive effect to regular stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS is computed by dividing net income by the weighted average number of common shares outstanding during the period, after giving retroactive effect for any stock dividends, stock splits or reverse stock splits during the period, and adjusted for the effect of dilutive convertible preferred shares. If the required dividends to be declared on convertible preferred shares divided by the number of equivalent common shares, assuming such shares are converted would decrease the basic EPS, then such convertible preferred shares would be deemed dilutive. Where the effect of the assumed conversion of the preferred shares and the exercise of all outstanding options have anti-dilutive effect, basic and diluted EPS are stated at the same amount.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after the inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
 - b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
 - c. there is a change in the determination of whether fulfillment is dependent on a specified asset;
- or

- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenario a, c or d and at the date of renewal or extension period for scenario b.

Operating lease - Company as lessee

Leases of office premises and container yards where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of lease.

Finance lease - Company as lessee

Leases of container vans, where the Company has substantially obtained the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in "Obligations under finance lease" account in the balance sheet. The interest element of the finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Foreign Currency Transactions

The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in Philippine peso based on the exchange rates prevailing at the dates of the transactions. At year-end, monetary assets and liabilities denominated in foreign currencies are restated at closing rate and any exchange differentials are credited to or charged against the statement of income.

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Segment Reporting

The Company and its branches and agencies are operating as one reportable segment engaged in domestic inter-island cargo shipping activities within the Philippines. Therefore, neither business nor geographical segment information is presented.

Events After the Reporting Period

Post year-end events that provide additional information about the Company's financial position at the balance sheet date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

4. Significant Accounting Judgments and Estimates

The preparation of the accompanying financial statements requires management to make judgments and estimates that affect the amounts reported in the financial statements and the accompanying notes. The judgments and estimates used in the accompanying financial statements are based upon

management's evaluation of relevant facts and circumstances as of date of the financial statements. Actual results could differ from such estimates.

Judgments

In the process of applying the Company's accounting policies, management has made judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

Determining functional currency

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences its revenues and operating expenses.

Operating lease commitments - Company as lessee

The Company has entered into leases of container yards, warehouses/offices and equipment. The Company has determined that it does not retain all the significant risks and rewards of ownership of these properties which are leased out on operating lease arrangements.

Finance lease commitments - Company as lessee

The Company has entered into leases of dry van containers. The Company has determined that these leases are finance leases since the significant risks and rewards of ownership related to these properties are transferred to the Company from the date of the lease agreement.

Estimations

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk causing material adjustments to the carrying amounts of the assets and liabilities within the next financial years are discussed below:

Impairment losses on trade and other receivables

The Company assesses at each balance sheet date whether there is any objective evidence that trade and other receivables are impaired. To determine whether there is objective evidence of impairment, the Company considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

The main consideration for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Company assesses impairment in two areas: individually assessed allowances and collectively assessed allowances.

The Company determines allowances for each significant receivable on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivable. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department and long-outstanding accounts receivable.

For collective assessment, allowances are assessed for receivables that are individually significant and for individually significant receivables where there is no objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectability.

Where there is objective evidence of impairment, the amount and timing of future cash flows are estimated based on age and status of the trade and other receivables, as well as on historical loss

experience.

Trade and other receivables amounted to ₱ 1,120,967,130 and ₱890,182,268 as of September 30, 2014 and December 31, 2013, respectively (see Note 6). These trade and other receivables have allowance for impairment losses amounting to ₱35,563,633 and ₱34,063,633 as of September 30, 2014 and December 31, 2013, respectively (see Note 6).

EUL of property and equipment

The EUL used as a basis for depreciating the Company's vessels and other property and equipment were determined on the basis of management's assessment of the period within which the benefits of these assets are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Company's assets. The Company reviews annually the EUL of property and equipment. A reduction in EUL of property and equipment would increase the recorded depreciation expense and decrease noncurrent assets.

The net book value of property and equipment amounted to ₱1,611,518,547 and ₱1,652,972,769 as of September 30, 2014 and December 31, 2013, respectively (see Note 9).

Impairment of property and equipment and other non-financial assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the property and equipment may be impaired or an impairment loss previously recognized no longer exists or may be decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The Company assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the assets or the strategy for the overall business; and
- significant negative industry or economic trends.

The Company has not identified any events or changes in circumstances that would indicate impairment of property and equipment and other non-financial assets.

The carrying value of property and equipment amounted to ₱1,611,518,547 and ₱1,652,972,769 as of September 30, 2014 and December 31, 2013, respectively (see Note 9).

Realizability of deferred income tax assets

The Company reviews the carrying amounts of deferred income tax assets at each balance sheet date and reduces it to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Management believes that it can generate sufficient taxable income to allow all or part of its deferred income tax assets to be utilized.

The Company recognized deferred income tax assets amounting to ₱55,944,263 and ₱53,247,312 as of September 30, 2014 and December 31, 2013, respectively (see Note 20). No deferred income tax assets were recognized on deductible temporary difference amounting to ₱2,800,923 as of December 31, 2013.

Pension and other retirement benefits

The determination of the obligation and the cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 16, and include among others, discount rates and salary increase rates. In accordance with PFRS, actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligation.

The carrying amount of the Company's pension obligation was ₱108,497,076 and ₱110,677,483 as of September 30, 2014 and December 31, 2013, respectively (see Note 16).

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The adjustments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

The fair values of the Company's financial assets amounted to ₱986,900,712 and ₱765,472,867 as of December 31, 2013 and 2012, respectively, and financial liabilities amounted to ₱1,717,013,495 and ₱1,313,187,086 as of December 31, 2013 and 2012, respectively (see Note 25).

Contingencies

In the ordinary course of business, the Company is a defendant in various litigations and claims. The estimate of the probable costs for the resolution of these claims and cases has been developed in consultation with internal and external legal counsels handling the Company's defense in these matters and is based upon an analysis of potential results. Although there can be no assurances, management and its legal cases believe that the ultimate resolution of these legal proceedings would not likely have a material, adverse effect on the results of its operations, financial position or liquidity of the Company. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these litigations and claims.

5. Cash and Cash Equivalents

| | Unaudited September 30, 2014 | Audited Dec. 31, 2013 |
|---------------------------|---|--------------------------|
| Cash on hand and in banks | ₱43,891,319 | ₱110,679,597 |
| Short-term placements | - | - |
| | ₱43,891,319 | ₱110,679,597 |

Cash in banks earn interest at the respective bank deposit rates. Short term-placements are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term placements rates.

Interest income from bank deposits and short-term placements, net of final tax, amounted to ₱619,433, ₱1,305,882 and ₱1,053,292 in 2013, 2012 and 2011, respectively (see Note 19).

6. Trade and Other Receivables

| | Unaudited September 30, 2014 | Audited Dec. 31, 2013 |
|--------------------------------------|---|--------------------------|
| Trade: | 988,308,880 | 813,567,291 |
| Less allowance for impairment losses | 26,324,100 | 24,824,100 |
| | 961,984,001 | 788,743,191 |
| Others: | | |
| Deposit to suppliers | 54,912,067 | 60,434,829 |
| Insurance claims | 16,944,996 | 17,338,412 |
| Advances | 5,461,022 | 5,499,118 |
| Officers and employees | 1,283,391 | 1,083,883 |
| Others | 89,620,405 | 26,322,368 |
| | 168,221,882 | 110,678,610 |
| Less allowance for impairment losses | (9,239,533) | 9,239,533 |
| | 158,982,349 | 101,439,077 |
| | 1,120,967,130 | ₱890,182,268 |

Trade receivables are noninterest-bearing and are generally on a 30-day term.

Rollforward of allowance for impairment losses follows:

| | Unaudited September 30, 2014 | Audited Dec. 31, 2013 |
|-------------------------------|---|--------------------------|
| Balances at beginning of year | ₱34,063,633 | ₱32,267,182 |
| Provisions (see Note 15) | 1,500,000 | 1,796,451 |
| Reversal | - | - |
| Write-off | - | - |
| | ₱35,563,633 | ₱34,063,633 |

7. **Inventories - at cost**

| | Unaudited September 30, 2014 | Audited Dec. 31, 2013 |
|-----------------------------|---|--------------------------|
| Fuel, diesel and lubricants | ₱26,283,282 | ₱26,283,283 |
| Materials and spare parts | 3,375,697 | 3,600,705 |
| | ₱29,658,979 | ₱29,883,988 |

Fuel and supplies inventories recorded under “Cost of services”, “Terminal expenses”, and “General and administrative expenses” amounted to ₱435,763,997, ₱32,389,670, ₱1,488,218 respectively, in September 30, 2014 and ₱519,104,920, ₱47,303,760, ₱2,352,123, respectively, in December 31, 2013 (see Notes 13, 14 and 15).

8. **Prepayments and Other Current Assets**

| | Unaudited September 30, 2014 | Audited Dec. 31, 2013 |
|------------------------------------|---|--------------------------|
| Creditable withholding tax (CWT) | ₱132,160,555 | ₱127,178,889 |
| Deferred input VAT | 54,221,065 | 45,685,357 |
| Prepaid insurance | 3,794,774 | 2,884,414 |
| Prepaid charges | 2,332,952 | 534,499 |
| Loans Receivable – current portion | 1,180,238 | 1,100,041 |
| Others | 78,317 | |
| | ₱193,767,903 | ₱177,383,200 |

Deferred input tax pertains to VAT from purchases and/or importations of various parts, supplies, equipment, machineries and or capital goods which will be claimed as credit against output tax liabilities in a manner prescribed by pertinent revenue regulations. As of year-end, it consists of the balance of the deferred input tax on capital goods exceeding ₱1 million as well as the unapplied Input VAT pertaining to the last month’s transactions of the current taxable year. Input tax on capital goods shall be claimed on a staggered basis over 60 months or the useful life of the related assets, whichever is shorter.

CWTs represent the amount withheld by the Company’s customers in relation to its sale of services. These are recognized upon collection of the related sales and are utilized as tax credits against income tax due as allowed by the Philippine taxation laws and regulations.

9. Property and Equipment

| 2013 | | | | | | | | | |
|---------------------------------|--------------------|------------------------------|-------------------------------------|---|--------------------------------|--------------------------|----------------------------|--------------------|-----------------------|
| Land | Land Improvements | Vessels and Drydocking Costs | and Container Vans and Improvements | Buildings, Warehouses, Terminal Premises and Equipment and Leasehold Improvements | Office Furniture and Equipment | Transportation Equipment | Vessel Tools and Equipment | Total | |
| Cost | | | | | | | | | |
| Balances at beginning of year | ₱17,124,468 | ₱15,272,566 | ₱2,270,978,574 | ₱693,109,967 | ₱333,636,024 | ₱58,201,132 | ₱35,775,135 | ₱210,704,672 | ₱3,634,802,538 |
| Additions | – | – | 176,098,416 | 69,294,449 | 1,214,055 | 11,632,440 | 833,036 | 65,674,700 | 324,747,096 |
| Disposals/write-off | – | – | (167,377,895) | (25,367,163) | – | – | (621,818) | – | (193,366,876) |
| Balances at end of year | 17,124,468 | 15,272,566 | 2,279,699,095 | 737,037,253 | 334,850,079 | 69,833,572 | 35,986,353 | 276,379,372 | 3,766,182,758 |
| Accumulated depreciation | | | | | | | | | |
| Balances at beginning of year | – | 15,162,145 | 997,841,510 | 458,976,215 | 300,002,909 | 50,126,898 | 22,693,668 | 108,542,794 | 1,953,346,139 |
| Depreciation for the year | – | 110,421 | 196,208,605 | 39,672,120 | 5,365,113 | 4,768,350 | 3,741,037 | 69,899,024 | 319,764,670 |
| Disposals/write-off | – | – | (136,429,406) | (22,880,323) | – | – | (591,091) | – | (159,900,820) |
| Balances at end of year | – | 15,272,566 | 1,057,620,709 | 475,768,012 | 305,368,022 | 54,895,248 | 25,843,614 | 178,441,818 | 2,113,209,989 |
| Net book value | ₱17,124,468 | ₱– | ₱1,222,078,386 | ₱261,269,241 | ₱29,482,057 | ₱14,938,324 | ₱10,142,739 | ₱97,937,554 | ₱1,652,972,769 |

2012

| | Land | Land Improvements | Vessels and Drydocking Costs | Container Vans and Improvements | Buildings, Warehouses, Terminal Premises and Equipment and Leasehold Improvements | Office Furniture and Equipment | Transportation Equipment | Vessel Tools and Equipment | Total |
|---------------------------------|-------------|-------------------|------------------------------|---------------------------------|---|--------------------------------|--------------------------|----------------------------|----------------|
| Cost | | | | | | | | | |
| Balances at beginning of year | ₱17,124,468 | ₱15,272,566 | ₱2,749,103,511 | ₱652,696,816 | ₱353,027,374 | ₱56,318,696 | ₱31,964,205 | ₱157,368,025 | ₱4,032,875,661 |
| Additions | - | - | 269,058,160 | 83,687,462 | 1,682,320 | 1,882,436 | 5,331,380 | 66,199,793 | 427,841,551 |
| Disposals/write-off | - | - | (747,183,097) | (43,274,311) | (21,073,670) | - | (1,520,450) | (12,863,146) | (825,914,674) |
| Balances at end of year | 17,124,468 | 15,272,566 | 2,270,978,574 | 693,109,967 | 333,636,024 | 58,201,132 | 35,775,135 | 210,704,672 | 3,634,802,538 |
| Accumulated depreciation | | | | | | | | | |
| Balances at beginning of year | - | 13,001,313 | 1,458,781,835 | 463,623,925 | 309,573,705 | 46,933,353 | 20,199,282 | 60,803,376 | 2,372,916,789 |
| Depreciation for the year | - | 2,160,832 | 229,041,075 | 34,445,269 | 7,610,119 | 3,193,545 | 3,603,131 | 53,817,336 | 333,871,307 |
| Disposals/write-off | - | - | (689,981,400) | (39,092,979) | (17,180,915) | - | (1,108,745) | (6,077,918) | (753,441,957) |
| Balances at end of year | - | 15,162,145 | 997,841,510 | 458,976,215 | 300,002,909 | 50,126,898 | 22,693,668 | 108,542,794 | 1,953,346,139 |
| Net book value | ₱17,124,468 | ₱110,421 | ₱1,273,137,064 | ₱234,133,752 | ₱33,633,115 | ₱8,074,234 | ₱13,081,467 | ₱102,161,878 | ₱1,681,456,399 |

In 2013, some parts of MV Lorcon Dumaguete with a book value of ₱3,785,911 were damaged and subsequently derecognized which resulted to a loss on disposal of ₱30,948,489 (see Note 18).

On January 30, 2012, the Company entered into a Memorandum of Agreement with a third party for the purchase of MV Lorcon General Santos (formerly MV Siefke) with a purchase price of ₱218,424,342.

On July 14, 2012, the Company entered into a Memorandum of Agreement with a third party for the sale of MV Lorcon Davao, which has a net book value amounting to ₱65,122,585 at the time of the sale. Loss recognized on the sale amounted to ₱41,960,885 (see Note 18).

In 2012, the Company sold various delivery vans which resulted to recognition of gain amounting to ₱4,483,121 (see Note 18).

On February 14, 2014, the Company entered into a Memorandum of Agreement with a third party for the purchase of MV Lorcon Bacolod (formerly MV Greetsiel) with a purchase price of \$2.55M..

In March 14, 2014, the Company entered into a Memorandum of Agreement with a third party of the sale of MV Lorcon Zamboanga, which has a net book value of ₱68,265,851 at the time of the sale. Loss recognized on the sale amounted to ₱38,847,220.

To ensure the maintenance of the vessels in accordance with international standards, the Company has availed of the services of a related party to oversee the regular upgrading and maintenance of the vessels (see Note 23).

The balance of property and equipment as of December 31, 2013 and 2012 includes fully depreciated assets still in use amounting to ₱551,887,118 and ₱575,705,600, respectively.

Certain vessels with carrying values of ₱1,037,435,970 and ₱1,167,123,236 as of December 31, 2013 and 2012, respectively, are used as chattel mortgage securities for long-term borrowings (see Note 12).

Property and equipment include the following amounts where the Company is a lessee under a finance lease (see Note 24):

| | 2013 | 2012 |
|-------------------------------|---------------------|--------------|
| Cost | ₱233,856,582 | ₱186,201,055 |
| Less accumulated depreciation | 62,385,850 | 36,525,646 |
| Net book value | ₱171,470,732 | ₱149,675,409 |

10. Other Noncurrent Assets

| | Unaudited Septembr 30, 2014 | Audited Dec. 31, 2013 |
|--|--------------------------------|--------------------------|
| Deposits - net (see Note 24) | ₱7,422,235 | ₱6,644,835 |
| Loan receivable - net of current portion | 2,844,985 | 3,740,463 |
| Investment in associate | — | — |
| Others | 699,335 | 699,334 |
| | ₱10,966,555 | ₱11,084,632 |

On November 2012, the Company entered into a Memorandum of Agreement with an agency

(the debtor) for a five year term loan amounting to ₱6,000,000. The loan receivable is due on October 2017, subject to 9% per annum and shall be equally amortized for 60 months. The loan is secured by a chattel mortgage on a land-based equipment.

Selected financial information of the associate as of December 31, 2013 and 2012 and for the years then ended follows:

| | 2013 | 2012 |
|---------------------------------------|------------------|----------|
| Total assets | ₱514,131 | ₱503,179 |
| Total liabilities | 3,230,556 | 181,656 |
| Total equity (capital deficiency) | (793,901) | 321,523 |
| Proportion of the Company's ownership | 50% | 50% |
| Carrying value | - | 160,762 |

| | 2013 | 2012 |
|----------|--------------------|----------|
| Income | ₱1,056 | ₱1,137 |
| Expenses | (1,116,480) | (77,974) |
| Net loss | ₱1,115,424 | ₱76,837 |

Equity in net loss of OTSI amounted to ₱160,762 and ₱50,820 in 2013 and 2012, respectively. OTSI has not declared dividends in 2013 and 2012.

11. Accounts Payable and Accrued Expenses

| | Unaudited September 30, 2014 | Audited Dec. 31, 2013 |
|---------------------------------|---------------------------------|--------------------------|
| Trade: | | |
| Third parties | ₱258,204,085 | ₱241,511,575 |
| Output VAT | 123,783,225 | 112,442,449 |
| Accrued expenses: | 153,105,907 | 86,603,628 |
| Dividends payable (see Note 21) | 9,841,954 | 24,169,757 |
| Other taxes payable | 5,778,514 | 5,444,165 |
| Customer deposits | 3,684,130 | 3,216,630 |
| Customer claims | 613,783 | 613,783 |
| Others | 38,887,555 | 10,398,251 |
| | ₱593,863,157 | ₱484,400,240 |

12. Borrowings

Short-term borrowings from local banks bear annual interest at 3.40% to 3.70% and 3.70% to 4.00% in 2014 and 2013, respectively. Short-term borrowings are secured by trade receivables with carrying amount of about ₱35.0 million.

Long-term borrowings consist of:

| | Sept 2014 | Dec 2013 |
|---|---------------------|---------------------|
| Balance of loan obtained from Banco de Oro (BDO) of ₱450.0 million, maturing on July 7, 2014 and payable in 7 equal semi-annual installments of ₱12.5 million until October 2011, 5 equal semi-annual installments of ₱27.5 million starting April 2012 until April 2014. Annual interest rate is equal to the PDST-F plus 2.5% or the simple average of PHIBOR and PDST-F rate when PHIBOR rate is 2.0% higher than the corresponding PDST-F. Interest is repriced and paid quarterly. Interest rates range from 4.00% to 4.74% in 2012 and from 3.32% to 6.40% in 2011. | ₱200,000,000 | ₱227,500,000 |
| Balance of loan obtained from Metropolitan Bank & Trust Company (MBTC) of ₱238.0 million, ₱50.0 million was availed last April 20, 2012 and will mature on April 20, 2019, ₱138.0 million was availed last May 15, 2012 and will mature on May 15, 2019. The loan is payable in quarterly installments of ₱2.0 million for the first drawdown and ₱7.5 million for the second drawdown with one year grace period. Interest is paid and repriced quarterly. Annual interest rate is equal to PDST-F plus minimum of 1.25% spread inclusive of Gross Receipts Tax rate (GRT), or the BSP Overnight lending rate plus GRT, whichever is higher at the time of the repricing. Interest rates range from 3.25% to 3.79% in 2012. | 180,880,000 | 208,745,427 |
| Balance of loan obtained from BDO of ₱225.0 million, maturing on March 16, 2017 and payable quarterly in 16 equal quarterly installments starting June 16, 2013. Annual interest rate is equal to PDST-F plus applicable spread and tax. Interest rates range from 4.00% to 4.50% in 2012 and from 2.44% to 4.55% in 2011. | 140,625,000 | 182,812,500 |
| Balance of loan obtained from MBTC of ₱130.0 million. ₱60.0 million was availed last June 2, 2011 and will mature on June 2, 2014, ₱40.0 million was availed last July 29, 2011 and will mature on July 29, 2014, while ₱30.0 million was availed last October 26, 2011 and will mature on October 24, 2014. The loan is payable in quarterly installments of ₱6.5 million with one year grace period and with a balloon payment of principal on the third year amounting to ₱84.5 million. Interest is paid monthly and repriced quarterly. Annual interest rate is equal to PDST-F plus minimum of 1.25% spread inclusive of GRT, or the BSP Overnight lending rate plus GRT, whichever is higher at the time of the repricing. Interest rates range from 3.00% to 4.74% in 2012. | 73,000,000 | 92,500,000 |
| | 594,505,000 | 711,140,369 |
| Less current portion - net of deferred financing cost | 148,901,428 | 411,871,048 |
| | ₱445,603,572 | ₱299,269,321 |

The long-term borrowings are secured by chattel mortgages on certain vessels with carrying values of ₱1,037,435,970 and ₱1,167,123,236 as of December 31, 2013 and 2012, respectively (see Note 9). Certain lenders require the Company to maintain financial ratios as stipulated in the loan

agreements. As of December 31, 2013 and 2012, the Company is compliant with the required ratios.

Deferred financing costs were incurred in connection with the financing arrangement. These cost are amortized, using the effective interest rate method, over the term of the related loans.

Rollforward analysis of deferred financing costs follows:

| | 2013 | 2012 |
|---------------------------------|-------------------|------------|
| Cost: | | |
| Balances at beginning of period | ₱2,907,515 | ₱1,717,515 |
| Addition | – | 1,190,000 |
| | 2,907,515 | 2,907,515 |
| Accumulated amortization: | | |
| Balances at beginning of period | 1,203,558 | 302,534 |
| Amortization for the period | 591,830 | 901,024 |
| Balances at end of period | 1,795,388 | 1,203,558 |
| | 1,112,127 | 1,703,957 |
| Less current portion | 458,952 | 515,154 |
| | ₱653,175 | ₱1,188,803 |

13. Cost of Services

| | Sept 30, 2014 | Sept 30, 2013 |
|---|----------------------|-----------------------|
| Materials, supplies and facilities (see Note 7) | ₱ 435,763,997 | ₱ 387,764,099 |
| Depreciation (see Note 9) | 151,042,164 | 203,234,520 |
| Outside services | 398,477,093 | 356,101,203 |
| Personnel (see Note 17) | 65,779,609 | 72,902,861 |
| Voyage | 45,388,327 | 39,655,584 |
| Vessel insurance (see Note 23) | 28,498,965 | 21,750,007 |
| Others | 2,605,220 | 2,683,627 |
| | 1,127,555,379 | ₱1,084,091,904 |

14. Terminal Expenses

| | Sept 30, 2014 | Sept 30, 2013 |
|---|----------------------|----------------------|
| Materials, supplies and facilities (see Note 7) | ₱ 32,389,670 | ₱ 37,012,779 |
| Rental (see Note 24) | 43,128,433 | 47,008,454 |
| Depreciation (see Note 9) | 34,507,557 | 33,160,738 |
| Personnel (see Note 17) | 21,711,796 | 22,672,553 |
| Outside services | 23,213,353 | 33,076,378 |
| Others | 8,352,906 | 6,200,737 |
| | ₱ 163,303,717 | ₱ 179,131,642 |

15. General and Administrative Expenses

| | Sept 30, 2014 | Sept 30, 2013 |
|---|---------------------|---------------------|
| Personnel (see Note 16) | ₱ 60,069,560 | ₱ 66,135,305 |
| Depreciation (see Note 9) | 6,478,214 | 5,756,971 |
| Outside services | 17,505,518 | 23,288,207 |
| Communication, light and water | 6,205,747 | 5,846,616 |
| Impairment losses on trade & other receivables (see Note 6) | 1,500,000 | 6,201,734 |
| Rental (see Note 23) | 8,373,153 | 6,989,907 |
| Transportation and travel | 2,515,546 | 2,643,504 |
| Supplies | 1,488,218 | 1,647,341 |
| Others | 10,134,603 | 2,214,132 |
| Entertainment, amusement and recreation | 511,319 | 595,635 |
| Employees training and staff meeting | 814,069 | 580,416 |
| Repairs and maintenance | 1,998,615 | 946,412 |
| Taxes and licenses | 2,462,114 | 2,624,073 |
| Membership fees | 53,900 | 52,400 |
| Advertising | 104,922 | 148,773 |
| | <u>₱120,215,504</u> | <u>₱125,671,433</u> |

16. Pension Cost

The Company maintains a funded, tax qualified, non-contributory retirement plan covering all its eligible employees. Under the provisions of the plan, the normal retirement age is 60 but employees with at least 20 years of credited services for sea-staff and 15 years for shore-staff can avail of an early retirement. The retirement plan is intended to provide lump-sum benefit payments to employees equal to 150% of monthly salary per year for shore-based employees and 35 days pay per year of service for sea-based employees.

The Company's retirement benefit fund ("Fund") is in form of a trust being maintained and managed by BPI Asset Management. In 2012, other than contributions to the Fund, there is no transaction between the Company and the Fund.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The following tables summarize the components of net benefit expense recognized in the statements of income and the funded status and amounts recognized in the balance sheets for the Plan.

| | 2013 | 2012 (As restated; see Note 2) | 2011 |
|--|--------------------|--------------------------------------|-------------|
| Retirement expense to be recognized in the statements of income: | | | |
| Current service cost | ₱8,113,400 | ₱6,713,927 | ₱7,415,348 |
| Net interest cost | 3,471,972 | 3,067,590 | 6,467,808 |
| Effect of curtailment | - | (7,391,300) | - |
| Settlements | - | 9,607,484 | - |
| | ₱11,585,372 | ₱11,997,701 | ₱13,883,156 |

| | 2013 | 2012 (As restated; see Note 2) | 2011 (As restated; see Note 2) |
|--|--------------------|--------------------------------------|--------------------------------------|
| Re-measurement effects to be recognized in other comprehensive income: | | | |
| Actuarial loss (gain) on defined benefit obligation | ₱31,097,465 | ₱14,774,607 | (₱10,517,400) |
| Return on assets excluding amount included in net interest cost | 283,198 | (315,712) | 950,549 |
| | ₱31,380,663 | ₱14,458,895 | (₱9,566,851) |

Movements in the pension liability are as follows:

| | 2013 | 2012 (As restated; see Note 2) |
|--|---------------------|--------------------------------------|
| Balances at beginning of year | ₱74,068,656 | ₱65,286,775 |
| Net benefit costs in statements of income: | | |
| Current service cost | 8,113,400 | 6,713,927 |
| Net interest cost | 3,471,972 | 3,067,590 |
| Effect of curtailment | - | (7,391,300) |
| Settlements | - | 9,607,484 |
| | 11,585,372 | 11,997,701 |
| Net benefit costs in statements of comprehensive income: | | |
| Actuarial loss due to: | | |
| Experience adjustments | 6,665,465 | 2,211,685 |
| Changes in financial assumptions | 24,432,000 | 12,562,922 |
| Actual return excluding amount included in net interest cost | 283,198 | (315,712) |
| | 31,380,663 | 14,458,895 |
| Actual contributions | (1,000,000) | (6,000,000) |
| Benefits paid | (5,357,208) | (11,674,715) |
| | ₱110,677,483 | ₱74,068,656 |

Pension liability - net

| | 2013 | 2012 (As restated; see Note 2) |
|-----------------------------|-----------------------|--------------------------------------|
| Fair value of plan assets | ₱15,212,718 | ₱13,679,413 |
| Present value of obligation | (125,890,201) | (87,748,069) |
| Pension liability | (₱110,677,483) | (₱74,068,656) |

Changes in the present value of the defined benefit obligation are as follows:

| | 2013 | 2012 (As restated; see Note 2) |
|---|---------------------|--------------------------------------|
| Balances at beginning of year | ₱87,748,069 | ₱72,089,247 |
| Net benefit costs in statements of income: | | |
| Current service costs | 8,113,400 | 6,713,927 |
| Interest cost | 4,288,475 | 3,628,819 |
| Effect of curtailment | - | (7,391,300) |
| | 12,401,875 | 2,951,446 |
| Re-measurements in other comprehensive income | | |
| Actuarial loss due to: | | |
| Experience adjustments | 6,665,465 | 2,211,685 |
| Changes in financial assumptions | 24,432,000 | 12,562,922 |
| | 31,097,465 | 14,774,607 |
| Benefits paid for voluntary separation | (5,357,208) | (2,067,231) |
| Balances at end of year | ₱125,890,201 | ₱87,748,069 |

Changes in the fair value of plan assets are as follows:

| | 2013 | 2012 (As restated; see Note 2) |
|--|--------------------|--------------------------------------|
| Balances at beginning of year | ₱13,679,413 | ₱6,802,472 |
| Interest income included in net interest cost | 816,503 | 561,229 |
| Actual return excluding amount included in net interest cost | (283,198) | 315,712 |
| Actual contributions | 1,000,000 | 6,000,000 |
| Balances at end of year | ₱15,212,718 | ₱13,679,413 |

The fair value of plan assets by each class as at the end of the reporting period are as follows:

| | 2013 | 2012 |
|-----------------------------------|--------------------|-------------|
| Cash and fixed-income investments | ₱15,238,204 | ₱13,701,167 |
| Less other liabilities | 25,486 | 21,754 |
| Fair value of plan assets | ₱15,212,718 | ₱13,679,413 |

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market. The plan assets have diverse investments and do not have any concentration risk.

The principal assumptions used as of December 31, 2013 and 2012 in determining pension benefit obligations net pension asset for the Company's Plan are shown below:

| | 2013 | 2012 |
|-----------------------|--------------|-------|
| Discount rate | 4.94% | 5.61% |
| Salary increase rate: | | |
| Land-based | 6.00% | 4.00% |
| Sea-based | 3.00% | 4.00% |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2013, assuming all other assumptions were held constant:

| | Increase (decrease) in basis points | Effect on defined benefit obligation |
|-------------------------|--|---|
| Discount rates | 100 | (P12,357,200) |
| | (100) | 14,581,400 |
| Future salary increases | 100 | P13,763,100 |
| | (100) | (11,925,400) |

The Company's defined benefit pension plan is funded by the Company.

The Company expects to contribute P3,000,000 to the defined benefit plan in 2014.

The average duration of the defined benefit obligation as of December 31, 2013 is 17.33 years.

17. Personnel Expenses

| | Sept 30, 2014 | Sept 30, 2013 |
|-----------------------------|---------------------|---------------------|
| Salaries and wages | P108,632,862 | P113,752,627 |
| Other employee benefits | 30,148,241 | 39,178,228 |
| Pension costs (see Note 16) | 8,779,863 | 8,779,863 |
| | P147,560,967 | P161,710,720 |

18. Other Income (Charges) - net

| | Sept 30, 2014 | Sept 30, 2013 |
|---|--------------------|----------------------|
| Income on service recoveries and others | (P9,755,619) | (P19,650,807) |
| Gain (loss) on disposal of property and equipment - net (see Note 9) | 38,822,190 | (1,923,585) |
| | P29,066,570 | (P21,574,393) |

19. Finance Costs and Other Charges – net

| | Sept 30, 2014 | Sept 30, 2013 |
|---------------------------------------|--------------------|---------------------|
| Interest expense: | P 28,471,221 | P 24,747,680 |
| Foreign exchange losses (gains) - net | 2,472,802 | (560,010) |
| Banks and other financing charges | 3,255,873 | 441,247 |
| Interest income (see Note 5) | (487,081) | (1,069,138) |
| | P33,712,816 | P 23,559,778 |

20. Income Taxes

The Company's current provision for income tax represents minimum corporate income tax (MCIT) in 2013, 2012 and 2011.

The reconciliation of income tax computed at the statutory income tax rate to benefit from income tax as shown in the statements of income is as follows:

| | 2013 | 2012 (As restated; see Note 2) | 2011 |
|---|--------------------|--------------------------------------|--------------|
| Income tax at statutory income tax rate of 30% | P3,575,137 | P17,898,126 | P1,871,341 |
| Additions to (reductions in) income tax resulting from: | | | |
| Unrecognized deferred income tax asset | 2,800,923 | - | - |
| Nondeductible expenses | 828,067 | 456,155 | 213,114 |
| Equity in net loss of an associate | 48,228 | 161,221 | 130,245 |
| Interest expense limitation | 18,499 | 15,240 | - |
| Interest income subjected to final tax | (44,970) | (391,765) | (315,988) |
| Income subject to income tax holiday (see Note 28) | (5,632,964) | (21,459,507) | (6,835,218) |
| | P1,592,920 | (P3,320,530) | (P4,936,506) |

In 2013, the Company did not recognized deferred income tax asset on MCIT amounting to P2,800,923.

The components of the net deferred income tax asset are as follows:

| | 2013 | 2012 (As restated; see Note 2) |
|---|--------------------|--------------------------------------|
| <i>Deferred income taxes recognized in the statement of income:</i> | | |
| Deferred tax assets: | | |
| Retirement benefit obligation | ₱18,833,712 | ₱18,927,029 |
| Allowance for impairment losses on receivables | 10,766,144 | 10,512,306 |
| Net operating loss carry over (NOLCO) | 2,306,993 | 7,272,008 |
| MCIT | 5,482,409 | 5,482,409 |
| Unrealized foreign exchange loss | 3,540,518 | - |
| | 40,929,776 | 42,193,752 |
| Deferred tax liabilities: | | |
| Unrealized foreign exchange gain | - | (2,294,430) |
| Deferred financing cost | (196,274) | (373,823) |
| | (196,274) | (2,668,253) |
| <i>Deferred income tax asset related to retirement benefit obligation recognized directly in equity</i> | | |
| | 12,513,811 | 3,099,612 |
| | ₱53,247,313 | ₱42,625,111 |

The Company has available NOLCO and MCIT which can be claimed as credit against regular taxable income and regular tax liability, respectively, as follows:

| Year Incurred | Availment Period | Amount | Applied/Expired | Balance |
|---------------|------------------|--------------------|--------------------|-------------------|
| NOLCO | | | | |
| 2012 | 2013-2015 | ₱20,332,455 | ₱12,642,478 | ₱7,689,977 |
| 2011 | 2012-2014 | 3,907,570 | 3,907,570 | - |
| | | ₱24,240,025 | ₱16,550,048 | ₱7,689,977 |
| MCIT | | | | |
| 2013 | 2014-2016 | ₱2,654,175 | ₱- | ₱2,654,175 |
| 2012 | 2013-2015 | 2,003,485 | - | 2,003,485 |
| 2011 | 2012-2014 | 3,478,924 | - | 3,478,924 |
| | | ₱8,136,584 | ₱- | ₱8,136,584 |

21. Equity

Capital Stock

On July 22, 1996, the Company listed with the PSE its common stock, wherein it offered 300,751,880 shares to the public at the issue price of ₱5.96 per share.

On September 4, 2006, the SEC approved the increase in the Company's authorized capital stock from ₱700.0 million divided into 400.0 million common shares, and 300.0 million preferred shares, both with a par value of ₱1.0 per share, to ₱1.0 billion divided into 895,058,756 common shares and 104,941,244 preferred shares, both with a par value of ₱1.0 per share. In separate meetings, the BOD and the shareholders resolved that the increase of the authorized capital stock shall be funded by the declaration of stock dividends equivalent to 75,187,967 common shares with a par value of ₱1.0 per share. On October 3, 2006, the PSE approved the application of the Company to list additional shares relating to the issuance of stock dividends.

On December 29, 2006, certain shareholders owning 96,125,243 preferred shares opted to convert their shares into 1 common share per 1 preferred share, plus stock dividends equivalent to 86.96% common share for every preferred share (equivalent to 83,587,161 shares). The Company filed Form 10.1 with SEC for the exemption from registration requirements of the converted 96,125,243 preferred shares into 179,712,404 common shares.

On September 21, 2007, the SEC approved the amendment of Article VII of the Company's Articles of Incorporation through the retirement of 8,816,001 preferred shares and conversion of 96,125,243 preferred shares into common shares resulting in the reduction of the Company's authorized capital stock to 991,183,999 with par value of ₱1.0 per share.

On November 28, 2007, the PSE has approved the Company's application to list additional 96,125,243 common shares to cover the underlying common shares for the conversion of a total of 96,125,243 preferred shares at a conversion rate of one (1) common share for every one (1) convertible preferred share. In addition, the PSE has approved the application of the Company to list additional 83,587,161 common shares, with a par value of ₱1.0 per share, to cover the 86.96% stock dividend declaration to the stockholders who opted to convert their preferred shares to common shares in 2007.

As of December 31, 2013, 2012 and 2011, the Company has 979, 996 and 1,015 shareholders, respectively.

Retained Earnings

Appropriated retained earnings represent amounts for the payments of loan amortization. On December 13, 2012, the BOD approved the reversal of the appropriated retained earnings.

On June 27, 2013, the BOD has declared and issued in favor of common shareholders of record as of July 12, 2013 cash dividends amounting to three centavos (₱0.025) per share, or an aggregate amount of ₱13,866,056.

On June 21, 2012, the BOD has declared and issued in favor of common shareholders of record as of July 6, 2012 cash dividends amounting to one and one half centavos (₱0.015) per share, or an aggregate amount of ₱8,319,634.

On May 20, 2011, the BOD has declared and issued in favor of common shareholders of record as of June 17, 2011 cash dividends amounting to three centavos (₱0.03) per share, or an aggregate amount of ₱13,891,307.

Treasury Shares

On March 11, 2011, the BOD approved the acquisition of 1,010,000 shares of stock of the Company. On June 23, 2011, the Company acquired 1,010,000 shares of its own outstanding shares for a total consideration of ₱3,125,850.

22. Earnings Per Share

Following are the bases for the computation of EPS as of December 31:

| | 2013 | 2012 | 2011 |
|---|--------------------|-------------|-------------|
| <i>Basic/diluted earnings</i> | | | |
| Net income available to common shareholders | ₱10,470,952 | ₱62,980,946 | ₱11,174,308 |
| Weighted average number of outstanding common shares | 554,642,251 | 554,642,251 | 554,642,251 |
| Basic/diluted EPS | ₱0.02 | ₱0.11 | ₱0.02 |

For the years ended December 31, 2013, 2012 and 2011, there were no shares of stock that have a potentially dilutive effect on the basic EPS of the Company.

23. Related Party Transactions

Parties are considered to be related if one party has the ability to control, directly or indirectly, the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

The following are the more significant related party transactions and balances as of and for the years ended December 31, 2013, 2012 and 2011 not separately shown elsewhere in the financial statements.

| Related Parties | Year | Freight Revenue | Purchases | Management Fees (Note 13) | Reimbursable Expenses | Insurance, Rental, Guarantee Fee, and Other Services | Amounts Owed by Related Parties (Note 6) | Amounts Owed to Related Parties (Note 11) | Terms | Conditions |
|---|------|--------------------|-----------|---------------------------|-----------------------|--|--|---|--|---|
| <i>Parent:</i> | | | | | | | | | | |
| NMC | 2013 | ₱3,619,173 | | ₱- | ₱- | ₱4,182,881 | ₱355,909 | ₱2,125,931 | Brokerage Fee - Payable within the following month | Unsecured; No Impairment |
| | 2012 | 13,877,692 | | - | - | 9,797,638 | 3,187,289 | 955,985 | | |
| | 2011 | - | | - | - | 3,435,771 | 16,918,916 | 4,895,824 | | |
| <i>Affiliates:</i> | | | | | | | | | | |
| One Stop Logistics Solutions, Inc. (OSLI) | 2013 | 11,336,734 | | - | - | 18,289 | 9,317,342 | 52,372,124 | 3,127,372 | Trucking - Payable within the following month; Unsecured; No Impairment |
| | 2012 | 30,305,130 | | - | - | 59,031 | 6,005,873 | 3,098,556 | | |
| | 2011 | 28,735,654 | | - | - | 77,628 | 9,719,271 | 3,976,258 | | |
| NMC Container Lines, Inc. (NMCCLL) | 2013 | 190,664,286 | | - | - | 1,472,796 | 42,049,430 | 180,448,022 | 34,541,837 | Co-loading/Reimbursables Payable within the following month; Unsecured; No Impairment |
| | 2012 | 101,233,615 | | - | - | 8,449,061 | 30,050,895 | 22,968,038 | | |
| | 2011 | 46,338,002 | | - | - | 8,870,499 | 23,906,598 | 28,660,182 | | |
| All Asian Countertrade | 2013 | 38,132,121 | | - | - | - | - | 8,120,629 | - Freight - Collectible in 30 days after receipt of Bill | Unsecured; No Impairment |
| | 2012 | 40,021,435 | | - | - | - | - | 12,715,150 | | |
| | 2011 | 19,945,165 | | - | - | - | - | 7,456,641 | 258,550 | |
| Magsaysay Shipmanagement, Inc. (MSI) | 2013 | - | | - | 31,599,845 | - | 1,482,221 | 4,240,460 | 10,369,905 | Revolving Fund Replenishment Payable 5 days after receipt; Unsecured; No Impairment |
| | 2012 | - | | - | 31,067,546 | - | 16,791,080 | 4,045,914 | 251,283 | |
| | 2011 | - | | - | 32,529,532 | - | 38,906,051 | 3,675,958 | 20,188,811 | |
| Magsaysay Marine Services, Inc. (MMSI) | 2013 | - | | - | - | - | 27,016,512 | 843,215 | 5,473,618 | Container Repair - Payable within the following month; Unsecured; No Impairment |
| | 2012 | - | | - | - | - | 28,398,777 | 748,815 | 1,864,755 | |
| | 2011 | - | | - | - | - | 42,905,683 | 845,390 | 18,634,148 | |
| Oceanic Container Lines, Inc. | 2013 | 56,704 | | - | - | - | 12,746,310 | 222,179 | 90,688 | Co-loading - Payable in 30 days; Unsecured; No Impairment |
| | 2012 | 124,860 | | - | - | - | 2,940,285 | 222,179 | 337,857 | |
| | 2011 | 884,831 | | - | - | - | 3,191,013 | 193,313 | 382,855 | |
| Asiaport Equipment and Logistics Corp. (AELC) | 2013 | - | | - | - | - | 33,043,898 | - | 2,351,749 | Lift on/lift off - Payable in 30 days; Unsecured; No Impairment |
| | 2012 | - | | - | - | - | 41,134,049 | - | 2,799,660 | |
| | 2011 | - | | - | - | - | 77,136,350 | - | 13,273,352 | |

(Forward)

| Related Parties | Year | Freight Revenue | Purchases | Management Fees (Note 13) | Reimbursable Expenses | Insurance, Rental, Guarantee Fee, and Other Services | Amounts Owed by Related Parties (Note 6) | Amounts Owed to Related Parties (Note 11) | Terms | Conditions |
|--|-------------|---------------------|---------------------|---------------------------|-----------------------|--|--|---|---|---------------|
| OYG Transport Inc. | 2013 | P- | P- | P- | P- | P1,572,192 | P- | P55,957 | Trucking - Payable in 15 days | Unsecured; |
| | 2012 | - | - | - | - | 1,808,973 | - | 50,990 | | No Impairment |
| | 2011 | - | - | - | - | 2,809,509 | - | 37,125 | | |
| Magsaysay Houlder Insurance Brokers, Inc. (MHIB) | 2013 | - | - | - | - | 13,419,233 | 69,287 | 41,509 | Insurance - Payable in 30 days | Unsecured; |
| | 2012 | - | - | - | - | 10,443,320 | - | 35,954 | | No Impairment |
| | 2011 | - | - | - | - | 7,269,356 | - | 240,074 | | |
| Marine Fuels Philippines, Inc. (MFPI) | 2013 | - | - | - | - | - | - | - | Fuel - Payable in 30 days | Unsecured; |
| | 2012 | - | 99,092 | - | - | - | - | - | | No Impairment |
| | 2011 | - | 31,333,634 | - | - | - | - | 999,476 | | |
| <i>Other shareholders:</i> | | | | | | | | | | |
| Dumaguete Coconut Mills, Inc. (DCM) | 2013 | 3,816,683 | - | - | - | 897,818 | 724,749 | - | Rental - first 5 days of the month | Unsecured; |
| | 2012 | 9,518,494 | - | - | - | 4,726,077 | 321,995 | 34,525 | | No Impairment |
| | 2011 | 3,567,683 | - | - | - | 946,107 | 3,133,249 | 131,053 | | |
| Tao Commodity Trader, Inc. (TAO) | 2013 | - | 112,295,243 | - | - | - | - | 664,878 | Fuel - Payable in 30 days | Unsecured; |
| | 2012 | - | 75,646,717 | - | - | - | - | 12,762,216 | | No Impairment |
| | 2011 | - | 107,699,169 | - | - | - | - | 7,343,408 | | |
| Pioneer Insurance and Surety Corp. (Pioneer) | 2013 | - | - | - | - | 17,602,883 | - | 2,454,304 | Insurance - Quarterly payment, payable 1st day of the quarter | Unsecured; |
| | 2012 | - | - | - | - | 22,539,594 | - | 4,244,721 | | No Impairment |
| | 2011 | - | - | - | - | 15,935,435 | - | 4,909,683 | | |
| Others | 2013 | 449,843 | - | - | 5,408,535 | 89,311,059 | 3,335,859 | 12,538,154 | Various | Unsecured; |
| | 2012 | 578,813 | - | - | - | 21,888,536 | 3,907,517 | 3,160,756 | | No Impairment |
| | 2011 | 1,790,760 | - | - | - | 9,816,968 | 61,122 | 4,713,634 | | |
| Total | 2013 | P248,075,044 | P112,295,243 | P31,599,845 | P6,899,620 | P252,641,780 | P250,732,433 | P73,835,901 | | |
| | 2012 | 195,660,039 | 75,745,809 | 31,067,546 | 8,508,092 | 196,525,097 | 111,925,737 | 52,565,296 | | |
| | 2011 | 101,262,095 | 139,032,803 | 32,529,532 | 8,948,127 | 235,978,112 | 120,195,459 | 108,644,433 | | |

Magsaysay Group of Companies:

- NMCCLI and MFPI are subsidiaries of NMC. NMCCLI has a co-loading agreement with the Company while MFPI supplies fuel to the Company.
- MHIBI, a subsidiary of NMC's parent, handles the marine cargo insurance requirements of the Company.
- MSI is a subsidiary of NMC's parent. The Company entered into a shipmanagement agreement with MSI whereby the Company appointed MSI as the manager of its vessels for a period of 12 months from January 1, 2012 to December 31, 2012.
- AELC is an associate of NMC. In 2008, the Company entered into an equipment and logistics services contract with AELC.
- OSLI, a wholly-owned subsidiary of NMC, is engaged in warehousing, project and rolling cargo handling and other cargo related services.
- MMSI, a subsidiary of NMC's parent, is primarily engaged in ship repair including corrosion control, container van repairs and other similar services.

Other Shareholders:

- TAO and DCM are substantially owned by Mr. Julio Sy, or his immediate family. The Company has a lease agreement with DCM, while TAO is one of the Company's suppliers of fuel for its vessels.
- Pioneer is the Company's provider of protection and indemnity and hull and machinery insurance for its vessels.
- Other related parties mentioned are businesses owned by various shareholders or directors of the Company and has transactions with the Company in the regular course of business.

Retirement Fund

The Company's retirement fund is managed by BPI Asset Management (see Note 16).

Compensation of key management personnel:

| | 2013 | 2012 |
|------------------------------|--------------------|-------------|
| Short-term employee benefits | ₱17,446,473 | ₱15,650,164 |
| Post-employment benefits | 1,586,515 | 1,354,495 |
| | ₱19,032,988 | ₱17,004,659 |

24. Leases

Finance Leases

The Company entered into separate lease purchase agreements with Cronos Containers Limited, SeaCube Containers LLC and Textainer Equipment Management Limited for the lease purchase of dry van containers. Lease charges for each container shall commence on the first calendar day of the month following the month in which the container was delivered to the Company and shall continue for a period of 3-8 years and shall be payable in 36 monthly installments in accordance with the terms and conditions of the lease purchase agreement.

The lease purchase agreement includes the following terms and conditions:

- a. the Company shall pay the lessor for any event of loss as defined in the agreement equivalent to the stipulated loss value; and
- b. provided the Company is not in default, the Company has the option to purchase the containers at the purchase price of US\$1 per container at the end of the lease term.

The future minimum lease payments for the obligations under finance lease are as follows:

| | 2013 | 2012 |
|---|---------------------|--------------|
| Within one year | ₱36,298,342 | ₱28,746,532 |
| After one year but not more than five years | 171,466,429 | 120,819,119 |
| After five years | 3,182,139 | 22,252,468 |
| Total minimum lease obligations | 210,946,910 | 171,818,119 |
| Less interest portion | 48,790,277 | 40,058,378 |
| Present value of minimum lease obligations | 162,156,633 | 131,759,741 |
| Less current portion | 31,997,429 | 25,811,012 |
| Noncurrent portion | ₱130,159,204 | ₱105,948,729 |

Operating Leases

As of December 31, 2013, the Company's leases pertain to the lease of container yards, warehouses/offices, equipments and container vans under various lease agreements for a period ranging from 1 to 10 years until 2018. The minimum annual rental commitments on these leases are presented below:

| | 2013 | 2012 |
|---|--------------------|-------------|
| Less than one year | ₱12,425,019 | ₱23,348,687 |
| More than one year but not more than five years | 49,619,750 | 66,604,675 |
| | ₱62,044,769 | ₱89,953,362 |

Deposits on the above agreements amounting to ₱7,078,641 and ₱6,942,341, in 2013 and 2012, respectively, is presented as part of "Other noncurrent assets" account in the balance sheets (see Note 10).

For the years ended December 31, 2013, 2012 and 2011, the Company's operating leases were charged to rental under "Terminal expenses" in the statements of income amounting to ₱55,885,072, ₱49,172,804 and ₱50,350,341 and under "General and administrative expenses" in the statements of income amounting to ₱9,248,030, ₱8,430,863 and ₱8,690,119, respectively (see Notes 14 and 15).

25. Financial Instruments

Financial Risk Management Objectives and Policies

Risk management is carried out by the Management Committee (ManCom) under policies approved by the Executive Committee (ExCom) and the BOD. Audit Committee identifies, evaluates, and hedges financial risks in close cooperation with the Company's ManCom. ExCom and BOD approve written principles provided by ManCom for overall risk management, as well as written policies, covering specific ones such as internal control policies, freight policies, purchasing policies and operational policies among others.

The Company's principal financial instruments consist of borrowings and obligations under finance leases. The main purpose of these financial instruments is to raise funds for the Company's operations. The Company has various financial instruments such as cash and cash equivalents, trade and other receivables, deposits and others included under other noncurrent assets, and accounts payable and accrued expenses which arise directly from its operations.

The Company's activities expose it to a variety of financial risks. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Consistent with prior year, the Company's policies for managing each of these risks are summarized below:

Fluctuations in freight rate and cargo volumes

In the cargo liner shipping industry, there are constant fluctuations in cargo volumes arising from competition and changes in the market environment. Negative trends in cargo volumes and freight rates have an impact on the Company's results of operations.

Fuel price fluctuations

Purchases of fuel to operate vessels are vital to the Company's operations. The market price of fuel is directly influenced by the price of crude oil in the world market. Any increase in the price of crude oil and the related increase in the price of fuel will have a negative impact on the Company's earnings. The risk involving fuel price fluctuations are borne mostly by the customers as the Company is allowed to increase freight rates under General Rate Increase and Automatic Fuel Rate Adjustment.

Interest rate risk

The Company depends on funds procured from external sources to meet substantial capital expenditure requirements. The Company reviews its exposure to interest rate risk through quarterly monitoring of actual figures against projections. Management believes that cash generated from operations is sufficient to pay its obligations under the loan agreements as they fall due.

The following tables set out the carrying amount as of December 31 by maturity, of the Company's financial instruments that are exposed to interest rate risk:

| Floating Rate | | Within 1 Year | 1-2 Years | 2-5 Years | Total |
|---------------------------------|-------------|----------------------|--------------------|---------------------|---------------------|
| Long-term borrowings | 2013 | ₱428,615,714 | ₱65,758,719 | ₱217,876,067 | ₱712,250,500 |
| | 2012 | 215,190,669 | 352,912,413 | 294,442,040 | 862,545,122 |
| Fixed Rate | | Within 1 Year | 1-2 Years | 2-5 Years | Total |
| Short-term borrowings | 2013 | ₱232,458,822 | | ₱- | ₱- |
| | 2012 | 39,200,000 | | - | 39,200,000 |
| Obligations under finance lease | 2013 | 27,902,835 | 65,903,830 | 68,349,966 | 162,156,631 |
| | 2012 | 25,811,012 | 22,761,975 | 83,186,754 | 131,759,741 |

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument. The other financial instruments of the Company that are not included in the above tables are noninterest-bearing and are therefore not subject to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's income before tax (through the impact on floating rate borrowings):

| | Year | Increase/Decrease in Basis Points | Effect on Income Before Tax |
|--|------|--------------------------------------|--------------------------------|
| Interest-bearing loans and borrowings | 2013 | +10 | (P907,982) |
| | | -20 | 1,815,964 |
| | 2012 | +50 | (P4,423,157) |
| | | -75 | 6,659,252 |

The sensitivity of the Company's statement of income is the effect of assumed changes in interest rates based on the bank's projection of 91-day interest rates using a combination of technical analysis and trending techniques.

There is no other impact on the Company's equity other than those already affecting the statement of income.

Foreign currency risk

The Company's foreign currency risk results primarily from the foreign exchange rate movements of the Philippine peso against foreign currencies. The Company resolved to mitigate this risk by taking advantage of market trends. Such trends are used to determine the proper timing of foreign currency transactions in order to realize a foreign currency gain.

The following table demonstrates the sensitivity to a reasonable change in the Philippine peso exchange rate in relation to foreign currencies based on the bank's projection of foreign currency fluctuations, with all variables held constant, of the Company's income before tax:

| | Effect on Income Before Tax | | |
|--|-----------------------------|--------------|--------------|
| | 2013 | 2012 | 2011 |
| US Dollar | | | |
| Strengthened (2012: 2%, 2011: 2%, 2010: 3%) | (P2,923,877) | (P2,418,547) | (P1,811,831) |
| Weakened (2012: 3%, 2011: 2%, 2010: 2%) | 1,461,939 | 3,627,820 | 2,719,815 |
| Japanese Yen | | | |
| Strengthened (2012: 3%, 2011: 3%, 2010: 2%) | (475,550) | (155,982) | (448,293) |
| Weakened (2012: 12%, 2011: 2%, 2010: 9%, 2009: 9%) | 79,258 | 623,928 | 299,746 |
| Euro | | | |
| Strengthened (2012: 2%, 2011: 5%, 2010: 5%) | 457,720 | 133,378 | (201,651) |
| Weakened (2012: 4%, 2011: 2%, 2010: 2%) | (152,573) | (266,755) | 80,657 |

There is no other impact on the Company's equity other than those already affecting the statement of income.

The Company's foreign currency denominated monetary assets and liabilities as of December 31 consists of:

| | 2013 | | |
|--|----------------|--------------|-------------|
| | US Dollar | Japanese Yen | Euro |
| Current assets | \$571,140 | ¥– | €284,321 |
| Current liabilities | (932,322) | (18,697,406) | (33,445) |
| Noncurrent liabilities | (2,931,844) | – | – |
| Net foreign currency denominated asset (liabilities) | (3,293,026) | (18,697,406) | 250,876 |
| Exchange rate used | 44.395 | 0.424 | 60.816 |
| Peso equivalent | (₱146,193,889) | (₱7,925,830) | ₱15,257,275 |

| | 2012 | | |
|--|----------------|--------------|------------|
| | US Dollar | Japanese Yen | Euro |
| Current assets | \$511,777 | ¥– | €144,560 |
| Current liabilities | (247,894) | (10,861,501) | (22,263) |
| Noncurrent liabilities | (3,209,738) | – | – |
| Net foreign currency denominated liabilities | (2,945,855) | (10,861,501) | 122,297 |
| Exchange rate used | 41.05 | 0.48 | 54.53 |
| Peso equivalent | (₱120,927,344) | (₱5,199,401) | ₱6,668,855 |

The Company had a net unrealized foreign exchange loss of ₱11,801,726 and net unrealized gain of ₱7,648,101 in 2013 and 2012, respectively.

Credit risk

Credit risk is defined as the risk of loss arising from the default of an individual, counterparty or issuer not being able to or unwilling to honor its contractual obligations. The Company's exposure to this risk is primarily due to its transactions with its trading customers.

The Company counters this risk by trading only with recognized, creditworthy third parties. It employs standard process in granting credit lines to customers. It performs thorough evaluation of its customers' operations and financial standing to ensure that its customers are able to meet its contractual obligation.

The Company monitors receivable balances and ensures that customers are able to settle their obligation within the agreed terms. Its Credit and Collection Department is responsible for the collection of these receivables and ensures that customers are able to settle their obligation.

Concentration of risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic feature that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions, such as fluctuations in currencies or interest rates. The Company has no significant concentration of credit risk.

The Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of its financial assets.

The following table shows the Company's maximum exposure to credit risk:

| | 2013 | 2012 |
|---|---------------------|--------------|
| Cash and cash equivalents* | ₱110,204,597 | ₱190,733,593 |
| Trade and other receivables: | | |
| Trade receivables | 788,743,191 | 537,386,659 |
| Insurance claims | 17,338,412 | 6,267,193 |
| Advances | 5,499,118 | 5,997,597 |
| Receivables from officers and employees | 1,083,883 | 1,181,066 |
| Other receivables | 26,322,368 | 7,234,127 |
| Loan receivable | 4,840,504 | 5,842,027 |
| Other noncurrent assets | 7,344,169 | 7,641,676 |
| | ₱961,376,242 | ₱762,283,938 |

*Excluding cash on hand

Credit quality per class of financial assets are as follows:

| | 2013 | | | | | | Total |
|---|-------------------------------|---------------------|--------------------|---------------------------|--------------------|---------------------|---------------------|
| | Neither Past Due nor Impaired | | | | | | |
| | High Grade | Standard Grade | Sub-standard Grade | Past Due but Not Impaired | | Impaired | |
| Cash and cash equivalents* | ₱110,204,597 | ₱- | ₱- | ₱- | ₱- | ₱- | ₱110,204,597 |
| Trade and other receivables: | | | | | | | |
| Trade receivables | 240,949,404 | 75,349,568 | 23,976,453 | 448,467,766 | 24,824,100 | - | 813,567,291 |
| Insurance claims | - | 17,338,412 | - | - | - | - | 17,338,412 |
| Advances | 5,499,118 | - | - | - | - | - | 5,499,118 |
| Receivables from officers and employees | 1,083,883 | - | - | - | - | - | 1,083,883 |
| Other receivables | - | 26,322,368 | - | - | - | - | 26,322,368 |
| Loan receivable | 4,840,504 | - | - | - | - | - | 4,840,504 |
| Other noncurrent assets | - | 7,344,170 | - | - | 1,593,091 | - | 8,937,261 |
| | ₱362,577,506 | ₱126,354,518 | ₱23,976,453 | ₱448,467,766 | ₱26,417,191 | ₱987,793,434 | |

*Excluding cash on hand

| | 2012 | | | | | | Total |
|---|-------------------------------|----------------|--------------------|---------------------------|-------------|---------------|--------------|
| | Neither Past Due nor Impaired | | | | | | |
| | High Grade | Standard Grade | Sub-standard Grade | Past Due but Not Impaired | | Impaired | |
| Cash and cash equivalents* | ₱190,733,593 | ₱- | ₱- | ₱- | ₱- | ₱- | ₱190,733,593 |
| Trade and other receivables: | | | | | | | |
| Trade receivables | 121,105,338 | 53,200,734 | 4,491,903 | 358,588,684 | 23,027,649 | - | 560,414,308 |
| Insurance claims | - | 6,267,193 | - | - | - | - | 6,267,193 |
| Advances | 5,997,597 | - | - | - | - | - | 5,997,597 |
| Receivables from officers and employees | 1,181,066 | - | - | - | - | - | 1,181,066 |
| Other receivables | 391,324 | 6,842,804 | - | - | - | - | 7,234,128 |
| Loan receivable | 5,842,027 | - | - | - | - | - | 5,842,027 |
| Other noncurrent assets | - | 7,641,767 | - | - | 1,593,091 | - | 9,234,858 |
| | ₱325,250,945 | ₱73,952,498 | ₱4,491,903 | ₱358,588,684 | ₱24,620,740 | ₱786,904,770v | |

*Excluding cash on hand

High grade financial assets are accounts where debtors have established credit integrity, such as multinational companies in which credit investigations are no longer necessary. Standard grade financial assets pertain to accounts of debtors who have historically paid their accounts on time and who have the financial capacity to pay. On the other hand, sub-standard grade financial assets pertain to accounts of debtors where the Company incurred delays in collection.

A financial asset is past due when a counterparty has failed to make payment when contractually due. Impaired financial assets are those accounts identified by the Company that need to be provided with allowance. The level of this allowance is evaluated by management on the basis of factors that affect the collectability of the accounts such as, but not limited to the length of the Company's relationship with the customer, the customers' payment behavior and known market factors.

Aging analyses per class of financial assets are as follows:

| 2013 | | | | | | | | | | |
|---|---------------------|------|---------------------------|--------------------|--------------------|---------------------|--------------------|-----------|---------------------|--------------|
| | Neither | Past | Past Due but Not Impaired | | | | More than | Impaired | Total | |
| | Due | nor | Less | than | 31-60 Days | 61-90 Days | | | | 91 Days |
| | Impaired | | 30 Days | | | | | | | |
| Cash and cash equivalents* | ₱110,204,597 | | ₱- | | ₱- | | ₱- | | ₱- | ₱110,204,597 |
| Trade and other receivables: | | | | | | | | | | |
| Trade receivables | 340,275,425 | | - | 84,479,055 | 80,052,748 | 283,935,963 | 24,824,100 | - | 813,567,291 | |
| Insurance claims | 17,338,412 | | - | - | - | - | - | - | 17,338,412 | |
| Advances | 5,499,118 | | - | - | - | - | - | - | 5,499,118 | |
| Receivables from officers and employees | 1,083,883 | | - | - | - | - | - | - | 1,083,883 | |
| Other receivables | 26,322,368 | | - | - | - | - | - | - | 26,322,368 | |
| Loan receivable | 4,840,504 | | - | - | - | - | - | - | 4,840,504 | |
| Other noncurrent assets | 7,344,170 | | - | - | - | - | - | 1,593,091 | 8,937,261 | |
| | ₱512,908,477 | | ₱- | ₱84,479,055 | ₱80,052,748 | ₱283,935,963 | ₱26,417,191 | | ₱987,793,434 | |

*Excluding cash on hand

| 2012 | | | | | | | | | | |
|---|---------------------|------|---------------------------|--------------------|--------------------|---------------------|--------------------|-----------|---------------------|--------------|
| | Neither | Past | Past Due but Not Impaired | | | | More than | Impaired | Total | |
| | Due | nor | Less | than | 31-60 Days | 61-90 Days | | | | 91 Days |
| | Impaired | | 30 Days | | | | | | | |
| Cash and cash equivalents* | ₱190,733,593 | | ₱- | | ₱- | | ₱- | | ₱- | ₱190,733,593 |
| Trade and other receivables: | | | | | | | | | | |
| Trade receivables | 178,797,975 | | 149,223,784 | 69,390,789 | 20,596,465 | 119,377,646 | 23,027,649 | - | 560,414,308 | |
| Insurance claims | 6,267,193 | | - | - | - | - | - | - | 6,267,193 | |
| Advances | 5,997,597 | | - | - | - | - | - | - | 5,997,597 | |
| Receivables from officers and employees | 1,181,066 | | - | - | - | - | - | - | 1,181,066 | |
| Other receivables | 7,234,127 | | - | - | - | - | - | - | 7,234,127 | |
| Loan receivable | 5,842,027 | | - | - | - | - | - | - | 5,842,027 | |
| Other noncurrent assets | 7,641,676 | | - | - | - | - | - | 1,593,091 | 9,234,767 | |
| | ₱403,695,254 | | ₱149,223,784 | ₱69,390,789 | ₱20,596,465 | ₱119,377,646 | ₱24,620,740 | | ₱786,904,679 | |

*Excluding cash on hand

Liquidity risk

Liquidity risk is the risk that the Company will not be able to settle or meet its financial obligations when they fall due. To mitigate exposure to such risk, the Company regularly monitors its cash position and loan due dates to ensure sufficient fund for working capital and to meet obligations as they fall due.

The tables below summarize the maturity profile of the Company's financial liabilities as of December 31, 2013 and 2012, based on contractual undiscounted cash flows. The table also analyses the maturity profile of the Company's financial assets in order to provide a complete view of the Company's contractual commitments. The analysis into relevant maturity grouping is based on the remaining period at the end of the reporting period to the contractual maturity dates.

| | 2013 | | | |
|--|-------------------------|---------------------|-----------------------|-----------------------|
| | Less than 6 6 Months | 6 to 1 Year | Months Over 1 Year | Total |
| <i>Financial liabilities:</i> | | | | |
| Short-term borrowings | P232,458,822 | P- | P- | P232,458,822 |
| Long-term borrowings | 123,665,000 | 290,665,000 | 297,922,500 | 712,252,500 |
| Obligations under finance lease | 14,061,180 | 13,841,668 | 134,253,796 | 162,156,644 |
| Future interest payable on borrowings and finance leases | 28,006,229 | 22,874,435 | 71,976,767 | 122,857,431 |
| Accounts payable and accrued expenses | 484,400,240 | - | - | 484,400,240 |
| | P882,591,471 | P327,381,103 | P504,153,063 | P1,714,125,637 |
| <i>Financial assets:</i> | | | | |
| Cash and cash equivalents | P110,679,597 | P- | P- | P110,204,597 |
| Trade and other receivables: | | | | |
| Trade receivables | 424,754,480 | 363,988,711 | 24,824,100 | 813,567,291 |
| Insurance claims | 6,267,193 | - | - | 6,267,193 |
| Advances | 5,997,597 | - | - | 5,997,597 |
| Receivables from officers and employees | 1,181,066 | - | - | 1,181,066 |
| Other receivables | 391,324 | - | - | 391,324 |
| Loan receivable | 5,842,027 | - | - | 5,842,027 |
| Other noncurrent assets | 7,641,676 | - | - | 7,641,676 |
| | P562,754,960 | P363,988,711 | P24,824,100 | P951,567,771 |
| 2012 | | | | |
| | Less than 6 6 Months | 6 to 1 Year | Months Over 1 Year | Total |
| <i>Financial liabilities:</i> | | | | |
| Short-term borrowings | P39,158,822 | P- | P- | P39,158,822 |
| Long-term borrowings | 64,082,500 | 87,665,000 | 710,548,539 | 862,296,039 |
| Obligations under finance lease | 13,007,040 | 12,803,972 | 105,948,729 | 131,759,741 |
| Future interest payable on borrowings and finance leases | 20,941,179 | 20,101,467 | 69,252,257 | 110,294,903 |
| Accounts payable and accrued expenses | 202,059,738 | 7,394,024 | 67,643,584 | 277,097,346 |
| | P339,249,279 | P127,964,463 | P953,393,109 | P1,420,606,851 |
| <i>Financial assets:</i> | | | | |
| Cash and cash equivalents | P190,733,593 | P- | P- | P190,733,593 |
| Trade and other receivables: | | | | |
| Trade receivables | 438,605,417 | 55,216,531 | 43,564,711 | 537,386,659 |
| Insurance claims | - | - | 6,267,193 | 6,267,193 |
| Advances | - | - | 7,234,128 | 7,234,128 |
| Receivables from officers and employees | - | - | 1,181,066 | 1,181,066 |
| Other receivables | - | - | 5,997,597 | 5,997,597 |
| Loan receivable | 489,017 | 512,506 | 4,840,504 | 5,842,027 |
| Other noncurrent assets | - | - | 7,641,676 | 7,641,676 |
| | P629,828,027 | P55,729,037 | P76,726,875 | P762,283,939 |

Classification and Fair Values of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements.

| | Carrying Amount | | Fair Value | |
|-------------------------------------|---------------------|--------------|---------------------|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| <i>Loans and Receivables:</i> | | | | |
| Loan receivable | ₱4,840,504 | ₱5,842,027 | ₱4,840,504 | ₱5,842,027 |
| Other noncurrent assets | 7,519,539 | 7,641,676 | 7,557,769 | 8,917,695 |
| | ₱12,360,043 | ₱13,483,703 | ₱12,398,273 | ₱14,759,722 |
| <i>Other Financial Liabilities:</i> | | | | |
| Obligations under finance lease | ₱162,156,631 | ₱131,759,741 | ₱162,156,631 | ₱131,759,741 |
| Long-term borrowings | 713,140,369 | 862,296,039 | 713,140,369 | 862,296,039 |
| | ₱875,297,000 | ₱994,055,780 | ₱875,297,000 | ₱994,055,780 |

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents, trade and other receivables, accounts payable and accrued expenses and short-term borrowings

The carrying values of cash and cash equivalents, trade and other receivables, accounts payable and accrued expenses and short-term borrowings approximate their fair values due to the relatively short-term maturity of these financial instruments.

Loans receivable

The fair value of loans receivable is based on the discounted net present value of cash flows using effective discount rate of 9.42% as of December 31, 2013 and 2012.

Other noncurrent assets

The fair value of other noncurrent asset pertaining to security deposit is based on the discounted net present value of cash flows using effective discount rate of 1.01% and 6.30% as of December 31, 2013 and 2012, respectively.

Long-term borrowings and obligations under finance lease

The fair values of long-term borrowings with variable interest rates approximate their carrying amounts due to quarterly repricing of interest.

The fair values of obligations under finance lease are based on the discounted net present value of cash flows using effective discount rates of 0.49% to 4.4% respectively, as of December 31, 2013 and 2012.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: Those inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As of December 31, 2013 and 2012, the Company held the following financial instruments that are measured and carried or disclosed at fair value:

December 31, 2013

| | Total | Level 1 | Level 2 | Level 3 |
|--|--------------------|-----------|-----------|--------------------|
| Disclosed at fair value: | | | | |
| Other noncurrent assets | ₱7,519,539 | ₱– | ₱– | ₱7,519,539 |
| Long-term borrowings | 713,140,369 | – | – | 713,140,369 |
| Obligations under finance lease | 162,156,633 | – | – | 162,156,633 |
| Loan receivable | 4,840,504 | – | – | 4,840,504 |

December 31, 2012

| | Total | Level 1 | Level 2 | Level 3 |
|--|--------------------|-----------|-----------|--------------------|
| Disclosed at fair value: | | | | |
| Other noncurrent assets | ₱8,917,695 | ₱– | ₱– | ₱8,917,695 |
| Long-term borrowings | 862,296,039 | – | – | 862,296,039 |
| Obligations under finance lease | 131,759,741 | – | – | 134,634,879 |
| Loan receivable | 5,842,027 | – | – | 5,842,027 |

There were no transfers between Level 1 and Level 2 fair value measurement, and there were no transfers into and out of Level 3 fair value measurement.

26. Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company monitors capital using debt-to-equity ratio. It is the policy of the Company to maintain a debt-to-equity ratio of not more than 1.5 as required by certain lenders. Capital includes equity attributable to common shareholders, share premium and accumulated earnings. Debt includes all liabilities, current and long-term interest bearing loans and borrowings and pension obligation.

| | 2013 | 2012 (As restated, see Note 2) |
|---|-----------------------|--------------------------------------|
| Short-term borrowings and other current liabilities | ₱718,859,062 | ₱396,638,729 |
| Long-term borrowings | 711,140,369 | 862,296,039 |
| Obligations under finance lease | 162,156,633 | 131,759,741 |
| Pension obligation | 110,677,483 | 74,068,656 |
| Total debt | 1,702,833,547 | 1,464,763,165 |
| Common stock | 555,652,251 | 555,652,251 |
| Additional paid-in capital | 459,791,492 | 459,791,492 |
| Actuarial gains (losses) on defined benefit plan | (29,198,893) | (7,232,429) |
| Treasury shares | (3,125,850) | (3,125,850) |
| Retained earnings | 239,481,220 | 243,023,072 |
| Total equity | 1,222,600,220 | 1,248,108,536 |
| Total debt and equity | ₱1,942,314,767 | ₱2,712,871,701 |

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may declare dividends, reacquire outstanding shares, or issue new shares.

On October 28, 2010, PSE issued a memorandum regarding the rule for the minimum public ownership for all listed companies. Based on the memorandum, listed companies shall, at all times, maintain a minimum percentage of listed securities held by the public of ten percent (10%) of the listed companies' issued and outstanding shares, exclusive of any treasury shares or as such percentage that may be prescribed by the PSE. The Company has complied with the minimum public ownership.

No changes were made in the objectives, policies or processes during the years ended December 31, 2013 and 2012.

27. Contingencies

The Company is a defendant in several pending legal cases involving claims for damages arising from the ordinary course of business. In the opinion of management and the Company's legal counsel, the ultimate liability for these lawsuits and claims, if any, would not be material in relation to the financial position and operating results of the Company. It is possible, however, that the future results of operations could be materially affected by changes in estimates or in the effectiveness of the strategies relating to these litigation and claims.

28. Registration with Board of Investments (BOI)

The Company is registered with the BOI as a new operator of domestic shipping cargo vessel (MV Lorcon Dumaguete), (MV Lorcon General Santos), and (MV Lorcon Bacolod) on a non-pioneer status, under the provisions of Executive Order (EO) No. 226, otherwise known as the Omnibus Investment Code of 1987. Under the Company's registration, it is entitled to certain tax and nontax incentives which include, among others, income tax holiday (ITH).

Below are the details of the Company's ITH entitlement:

| Vessel | BOI Approval Date | Commencement Date* | ITH Period |
|--------------------------|--------------------------|---------------------------|-------------------|
| MV Lorcon Dumaguete | March 2010 | June 2010 | 4 years |
| MV Lorcon General Santos | July 2012 | July 2012 | 4 years |
| MV Lorcon Bacolod | July 2014 | July 2012 | 4 years |

**or actual start of commercial operations, whichever comes first.*

The ITH incentives shall be limited only to the revenues generated from the new activity.

The ITH entitlement of MV Lorcon Dumaguete has expired last 31 May 2014.

Under the terms of the Company's registration, it is subject to certain requirements, principally that of following a specified sales volume and sales revenue schedule and securing prior permission from the BOI before performing certain acts.

Under the Company's application with the BOI, it can avail of a bonus year in each of the following cases but the aggregate ITH availment (basic and bonus years) shall not exceed eight (8) years:

- a. The ratio of the total imported and domestic capital equipment to the number of workers for the project does not exceed US\$10,000 to one (1) worker;
- b. The net foreign exchange savings or earnings amount to at least US\$500,000 annually during the first three (3) years of operation; and
- c. The indigenous raw materials used in the manufacture of the registered product must at least be fifty (50%) of the total cost of raw materials for the preceding years prior to the extension unless the BOI prescribes a higher percentage.

29. Note to Statements of Cash Flows

The Company purchased container vans under finance lease agreement for a total consideration amounting to ₱47,655,527 and ₱83,237,088 in 2013 and 2012, respectively.

In the year 2014, the company acquired 200 container vans. Twenty (20) units with a total purchase cost of P2.1M were already delivered so far. /

30. Supplementary Information Required Under Revenue Regulations (RR) 15-2010

On November 25, 2010, the BIR issued RR 15-2010 which amends certain provisions of RR 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements accompanying the tax returns. It requires the disclosures of taxes, duties and licenses paid or accrued during the taxable year.

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and licenses paid or accrued during the taxable year.

VAT

The National Internal Revenue Code of 1997 provides for the imposition of VAT on sales of goods and services. Accordingly, the Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. R.A. No. 9337 increased the VAT rate from 10.0% to 12.0%, effective February 1, 2006.

The Company is a VAT-registered company with output VAT declaration for the year ended December 31, 2013 as follows:

| | Net sales/ receipts | Output VAT |
|-----------------------|------------------------|--------------|
| <u>Taxable sales:</u> | | |
| Sale of services | ₱1,771,456,714 | ₱212,574,806 |

The Company's sales that are subjected to VAT are reported under "Freight Revenue" and "Other Income".

The Company's sales of services are based on actual collections received, hence may not be the same as amounts accrued in the statement of income.

The amount of input VAT claimed are broken down for the year ended December 31, 2013 is as follows:

| | |
|--|----------------------|
| Balance at January 1 | ₱- |
| <u>Current year's purchases:</u> | |
| Capital goods subject to amortization | 20,621,419 |
| Services lodged under direct costs | 167,977,242 |
| From importation | 2,954,215 |
| Claims for tax credit/refund and other adjustments | 191,552,876 |
| <u>Input tax application against output VAT</u> | <u>(191,552,876)</u> |
| <u>Balance at December 31</u> | <u>₱-</u> |

Importations

The landed cost of the Company's importations amounted to ₱24,618,460 for the year.

Documentary stamps tax

The documentary stamps tax paid/accrued during the year on the bill of lading amounted to ₱726,115.

Other taxes and licenses:

This includes all other taxes, local and national, including real property taxes, licenses and permit fees lodged under the "Taxes and licenses" account in "General and administrative expenses" in the statement of income.

Details of other taxes and licenses for the year ended December 31, 2013 follows:

| | |
|--------------------------|-------------------|
| License and permits fees | ₱1,919,276 |
| Real property tax | 377,161 |
| Others | 983,604 |
| | <u>₱3,280,041</u> |

Withholding taxes

Details of withholding taxes for the year ended December 31, 2013 follows:

| | |
|----------------------------------|-------------|
| Expanded withholding taxes | ₱31,449,240 |
| Tax on compensation and benefits | 23,051,363 |

| | |
|-------------------------|--------------------|
| Final withholding taxes | 246,524 |
| | <u>₱54,747,127</u> |

Tax Assessment

The Company received a formal assessment notice (FAN) from the Large Tax Payers Audit Division I of the Bureau of Internal Revenue covering the taxable year 2008 amounting to about ₱2.01 billion, inclusive of penalties, interest and surcharge for the deficiency taxes. The Company is currently contesting the assessment with the Court of Tax Appeal.

MANAGEMENT DISCUSSION

Operating Results for the Nine Months Ended September 30, 2014

I. Balance Sheet

- Cash decreased by 60.3% or Php66.7M due cash requirement on vessel acquisition.
- Receivables increased by 25.9% or Php230M due to Freight Revenue generated during the first nine months of the year.
- Property and Equipment decreased by Php41. M or 2.5% due to retirement of a vessel.
- Accounts Payable increased by 22.1% or Php107M due to operational and capital expenditures.
- Short term borrowings increased to Php169M or 73% to bridge financing of new vessel acquisition.
- Finance Lease decreased by 10% or Php3.1M due to periodic amortizations during the period
- Retained Earnings expanded by 3.8% due to bottom-line profits after tax during the first two quarters.

II. Income Statement

- Net Revenue performance was 8.7% or Php118M higher compared with the same period last year due to higher volume from co-loading shipments.
- Other Income decreased by 234.77% or P50M. This was substantially due to a loss on sale of vessel that transpired on the second quarter of the year.
- Finance costs increased by 43.1% or P10M due to interest expense on borrowings, bank charges and forex loss recognized during the 1st to 3rd quarters of the current year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONSFINANCIAL HIGHLIGHTS
In Php'000

| A. INCOME STATEMENT | For the 3rd quarter ending | | Fav/(Unfav) Value | % |
|--|----------------------------|------------------|----------------------|----------|
| | 30-Sep-14 | 30-Sep-13 | | |
| Operating Revenue | 1,482,513 | 1,364,271 | 118,242 | 8.67% |
| Direct Costs | 1,290,859 | 1,263,224 | 27,636 | 2.19% |
| Gross Profit | 191,654 | 101,048 | 90,606 | 89.67% |
| Other Income (Charges) | (29,067) | 21,574 | (50,641) | -234.73% |
| Admin and General Expenses | (120,216) | (125,671) | 5,456 | -4.34% |
| Interest & Finance Charges | (33,713) | (23,560) | (10,153) | 43.09% |
| Net income / (Loss) before tax | 8,659 | (26,609) | 35,268 | -132.54% |
| Provision for (Benefit from) income tax | (497) | (4,372) | 3,876 | -88.64% |
| Net income / (Loss) after tax | 9,156 | (22,237) | 31,392 | -141.17% |
| B. BALANCE SHEET | As of | As of | Inc/(Dec) | |
| | 30-Sep-14 | 31-Dec-13 | Value | % |
| Current Assets | 1,388,285 | 1,208,129 | 180,156 | 14.91% |
| Property & Equipment-net | 1,611,519 | 1,652,973 | (41,454) | -2.51% |
| Other Assets | 66,911 | 64,332 | 2,579 | 4.01% |
| Total Assets | 3,066,715 | 2,925,434 | 141,281 | 4.83% |
| Current Liabilities | 1,173,735 | 1,162,728 | 11,008 | 0.95% |
| Long-Term Liabilities | 661,201 | 540,106 | 121,095 | 22.42% |
| Stockholders' Equity | 1,231,779 | 1,222,600 | 9,178 | 0.75% |
| Total Liabilities & Stockholders' Equity | 3,066,715 | 2,925,434 | 141,281 | 4.83% |

LORENZO SHIPPING CORPORATION

Comparative Income Statements

For the Nine Months Ended September 30, 2014 and 2013

Schedule A

| | Current Year 3 months | Last Year 3 months | Increase (Decrease) | % | 2014 Jan-Sept | 2013 Jan-Sept | Increase (Decrease) | % |
|--|----------------------------------|-------------------------------|--------------------------------|----------------|--------------------------|--------------------------|--------------------------------|----------------|
| NET REVENUE | | | | | | | | |
| Freight | 502,596,936 | 413,695,847 | 88,901,089 | 21.5% | 1,482,512,766 | 1,364,271,197 | 118,241,568 | 8.7% |
| Total | <u>502,596,936</u> | <u>413,695,847</u> | <u>88,901,089</u> | <u>21.5%</u> | <u>1,482,512,766</u> | <u>1,364,271,197</u> | <u>118,241,568</u> | <u>8.7%</u> |
| DIRECT COSTS | | | | | | | | |
| Cost of services | 398,144,110 | 365,764,716 | 32,379,394 | 8.9% | 1,127,555,379 | 1,084,091,904 | 43,463,475 | 4.0% |
| Terminal Operating Expenses | 55,556,913 | 59,567,908 | (4,010,995) | -6.7% | 163,303,717 | 179,131,642 | (15,827,925) | -8.8% |
| Total | <u>453,701,022</u> | <u>425,332,624</u> | <u>28,368,399</u> | <u>6.7%</u> | <u>1,290,859,096</u> | <u>1,263,223,547</u> | <u>27,635,550</u> | <u>2.2%</u> |
| GROSS PROFIT | <u>48,895,913</u> | <u>(11,636,777)</u> | <u>60,532,691</u> | <u>-520.2%</u> | <u>191,653,669</u> | <u>101,047,651</u> | <u>90,606,019</u> | <u>89.7%</u> |
| GENERAL AND ADMINISTRATIVE EXPENSES | (38,935,080) | (43,026,593) | 4,091,512 | -9.5% | (120,215,504) | (125,671,434) | 5,455,929 | -4.3% |
| FINANCE COSTS AND OTHER CHARGES | (15,365,077) | (9,926,014) | (5,439,063) | 54.8% | (33,712,816) | (23,559,779) | (10,153,037) | 43.1% |
| OTHER INCOME | 4,390,399 | 1,844,397 | 2,546,002 | 138.0% | (29,066,571) | 21,574,394 | (50,640,964) | -234.7% |
| INCOME BEFORE INCOME TAX | <u>(1,013,845)</u> | <u>(62,744,987)</u> | <u>61,731,142</u> | <u>-98.4%</u> | <u>8,658,779</u> | <u>(26,609,168)</u> | <u>35,267,946</u> | <u>-132.5%</u> |
| PROVISION FOR (BENEFIT FROM) INCOME TAX | (665,448) | (10,171,932) | 9,506,484 | -93.5% | (496,798) | (4,372,484) | 3,875,686 | -88.6% |
| NET INCOME AFTER TAX | <u>(348,397)</u> | <u>(52,573,055)</u> | <u>52,224,658</u> | <u>-99.3%</u> | <u>9,155,577</u> | <u>(22,236,684)</u> | <u>31,392,260</u> | <u>-141.2%</u> |

LORENZO SHIPPING CORPORATION

Balance Sheet

As of September 30, 2014 and December 31, 2013

(In Phil. Peso)

Schedule B

| | Audited December 31, 2013 | Unaudited September 30, 2014 | Increase (Decrease) | | |
|---|--|---|--------------------------------|--------|-----------|
| CURRENT ASSETS | | | | | |
| Cash | 110,679,599 | 43,891,320 | (66,788,280) | -60.3% | 1 |
| Trade and other receivables - net | 890,182,268 | 1,120,967,130 | 230,784,862 | 25.9% | 2 |
| Inventories | 29,883,989 | 29,658,980 | (225,010) | -0.8% | |
| Prepayments and other current assets | 177,383,196 | 193,767,902 | 16,384,706 | 9.2% | 3 |
| Total current assets | <u>1,208,129,053</u> | <u>1,388,285,332</u> | | | |
| NON-CURRENT ASSETS | | | | | |
| Property and equipment, net | 1,652,972,770 | 1,611,518,547 | (41,454,223) | -2.5% | 4 |
| Deferred income tax asset | 53,247,312 | 55,944,263 | 2,696,951 | 5.1% | 5 |
| Miscellaneous deposits and others | 11,084,633 | 10,966,555 | (118,078) | -1.1% | |
| Total non-current assets | <u>1,717,304,715</u> | <u>1,678,429,365</u> | | | |
| TOTAL ASSETS | <u>2,925,433,768</u> | <u>3,066,714,697</u> | | | |
| CURRENT LIABILITIES | | | | | |
| Accounts Payable and Accrued Expenses | 486,400,234 | 593,863,157 | 107,462,922 | 22.1% | 6 |
| Short-term borrowings | 232,458,822 | 402,158,822 | 169,700,000 | 73.0% | 7 |
| Current portion of obligations under capital lease | 31,997,429 | 28,811,668 | (3,185,760) | -10.0% | 9 |
| Current portion of Long-Term Debts | 411,871,048 | 148,901,428 | (262,969,620) | -63.8% | 8 |
| TOTAL CURRENT LIABILITIES | <u>1,162,727,533</u> | <u>1,173,735,075</u> | | | |
| NON-CURRENT LIABILITIES | | | | | |
| Long-Term Debts, Net of current portion | 299,269,321 | 444,491,441 | 145,222,120 | 48.5% | 8 |
| Obligations under capital lease - net of current portion | 130,159,204 | 108,212,576 | (21,946,628) | -16.9% | 9 |
| Pension obligation | 110,677,483 | 108,497,076 | (2,180,406) | -2.0% | 10 |
| TOTAL NON-CURRENT LIABILITIES | <u>540,106,008</u> | <u>661,201,093</u> | | | |
| CAPITAL STOCK | | | | | |
| Authorized : 991.18 million common shares @ P1 par value. | | | | | |
| Issued and outstanding - 555,652,251 common shrs. | 555,652,251 | 555,652,251 | - | | |
| Capital in Excess of Par Value | 459,791,492 | 459,791,492 | - | | |
| Treasury Shares | (3,125,850) | (3,125,850) | | | |
| Actuarial Gains and Losses | (29,198,893) | (29,198,893) | | | |
| Retained Earnings | 239,481,227 | 248,659,529 | 9,178,302 | 3.8% | 11 |
| TOTAL STOCKHOLDERS' EQUITY | <u>1,222,600,227</u> | <u>1,231,778,529</u> | | | |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | <u>2,925,433,768</u> | <u>3,066,714,697</u> | | | |

- 1 Substantially due to huge cash requirement on vessel acquisition during the period.
- 2 Substantially due to Revenue generated during the quarter/period.
- 3 Substantially due to increase in prepayments made for insurance and importations aswell as increase in deferred input tax.
- 4 Substantially due to a retirement of an asset during the quarter/period.
- 5 Substantially due to availment of NOLCO during the period.
- 6 Substantially due to increase in payables related to operational and capital expenditures.
- 7 Substantially due to availment of short term loans during the period.
- 8 Substantially due Loan principal repayments during the period.
- 9 Substantially due capital lease amortizations during the period.
- 10 Substantially due to benefits paid to sepparrated employees during the quarter.
- 11 Due to Net income generated for the nine months period.

KPI

**A. CURRENT RATIO / WORKING CAPITAL RATIO / BANKER'S RATIO
(CURRENT ASSET / CURRENT LIABILITIES)**

| | As of September 2014 | As of September 2013 |
|----------------------|----------------------|----------------------|
| CA | 1,388,285,332 | 995,476,302 |
| CL | 1,173,735,075 | 845,390,515 |
| CURRENT RATIO | <u><u>1.18</u></u> | <u><u>1.18</u></u> |

**A/R TURNOVER
(TOTAL CREDIT SALES / AVE. RECEIVABLES)**

| | As of September 2014 | As of September 2013 |
|---------------------|----------------------|----------------------|
| CREDIT SALES | 1,482,512,766 | 1,240,346,855 |
| AVE. A/R | 875,363,986 | 597,744,048 |
| A/R TURNOVER | <u><u>1.69</u></u> | <u><u>2.08</u></u> |

B. ACID-TEST RATIO/QUICK ASSET RATIO (CASH+ RECEIVABLE/CURRENT LIABILITIES)

| | As of September 2014 | As of September 2013 |
|------------------------|----------------------|----------------------|
| CASH/AR | 1,164,858,450 | 786,278,556 |
| CL | 1,173,735,075 | 845,390,515 |
| ACID TEST RATIO | <u><u>0.99</u></u> | <u><u>0.93</u></u> |

C. FUNDS FROM OPERATIONS (NET INCOME + FOREX (GAIN)/LOSS + DEPRECIATION & AMORTIZATION)

| | As of September 2014 | As of September 2013 |
|------------|---------------------------|---------------------------|
| NI | 9,155,577 | (22,236,684) |
| FOREX | 2,472,802 | (560,011) |
| D & A | 192,027,936 | 242,152,231 |
| FFO | <u><u>203,656,315</u></u> | <u><u>219,355,537</u></u> |

**TEST OF SOLVENCY
(ABILITY OF THE COMPANY TO PAY ALL ITS DEBTS, WHETHER CURRENT, OR NON-CURRENT)**

A. TIMES INTEREST EARNED (EBITDA / INTEREST EXPENSE)

| | As of September 2014 | As of September 2013 |
|------------|----------------------|----------------------|
| EBITDA | 234,399,531 | 240,290,744 |
| INT | 28,471,222 | 24,747,681 |
| TIE | <u><u>8.23</u></u> | <u><u>9.71</u></u> |

B. EBIT (EARNINGS BEFORE INTEREST AND TAXES)

Schedule C-2

| | <u>As of September 2014</u> | <u>As of September 2013</u> |
|------|-----------------------------|-----------------------------|
| EBIT | <u>42,371,595</u> | <u>(1,861,487)</u> |

C. EBITDA (EARNINGS BEFORE INTEREST, TAXES, DEPN. & AMORTIZATION)

| | <u>As of September 2014</u> | <u>As of September 2013</u> |
|--------|-----------------------------|-----------------------------|
| EBIT | 42,371,595 | (1,861,487) |
| D & A | 192,027,936 | 242,152,231 |
| EBITDA | <u>234,399,531</u> | <u>240,290,744</u> |

F. DEBT TO EQUITY RATIO (TOTAL LIAB./TOTAL EQUITY)

| | <u>As of September 2014</u> | <u>As of September 2013</u> |
|-------|-----------------------------|-----------------------------|
| TL | 1,834,936,168 | 1,574,771,555 |
| SHE | 1,231,778,529 | 1,218,646,942 |
| RATIO | <u>1.49</u> | <u>1.29</u> |

G. DEBT RATIO (TOTAL LIABILITIES / TOTAL ASSETS)

| | <u>As of September 2014</u> | <u>As of September 2013</u> |
|-------|-----------------------------|-----------------------------|
| TL | 1,834,936,168 | 1,574,771,555 |
| TA | 3,066,714,697 | 2,793,418,497 |
| RATIO | <u>0.60</u> | <u>0.56</u> |

H. EQUITY RATIO (TOTAL SHE / TOTAL ASSETS)

| | <u>As of September 2014</u> | <u>As of September 2013</u> |
|-------|-----------------------------|-----------------------------|
| SHE | 1,231,778,529 | 1,218,646,942 |
| TA | 3,066,714,697 | 2,793,418,497 |
| RATIO | <u>0.40</u> | <u>0.44</u> |

TEST OF PROFITABILITY

(ABILITY OF THE COMPANY TO EARN TO ATTRACT THE STOCKHOLDERS & CREDITORS; IT MEASURES THE ABILITY OF THE CO. TO SURVIVE AND CONTINUE TO EXIST AS A GOING CONCERN IF IT CAN EARN ENOUGH REVENUE TO SATISFY ALL OBLIGATIONS AND PROVIDE A SATISFACTORY RETURN ON THE OWNER'S INVESTMENT)

A. RETURN ON REVENUE OR NET PROFIT RATIO (NET INCOME / NET SALES) MEASURES THE OVERALL PROFITABILITY OF OPNS

| | <u>As of September 2014</u> | <u>As of September 2013</u> |
|---------|-----------------------------|-----------------------------|
| NI | 9,155,577 | (22,236,684) |
| NET REV | 1,482,512,766 | 1,240,346,855 |
| % | <u>1%</u> | <u>-2%</u> |

B. OPERATING PROFIT MARGIN (EBIT/NET SALES)

Schedule C-3

| | As of September 2014 | As of September 2013 |
|---------|----------------------|----------------------|
| EBIT | 42,371,595 | (1,861,487) |
| NET REV | <u>1,482,512,766</u> | <u>1,240,346,855</u> |
| % | <u><u>3%</u></u> | <u><u>-0.15%</u></u> |

**C. RETURN ON TOTAL ASSETS (ROA) - EBIT / TOTAL ASSETS measures of operating efficiency.
It indicates how well management has used the assest under its control to generate income.**

| | As of September 2014 | As of September 2013 |
|------|----------------------|----------------------|
| EBIT | 42,371,595 | (1,861,487) |
| TA | <u>3,066,714,697</u> | <u>2,793,418,497</u> |
| % | <u><u>1%</u></u> | <u><u>-0.07%</u></u> |

D. RETURN ON ASSETS (NET INCOME / TOTAL ASSETS)

| | As of September 2014 | As of September 2013 |
|----|----------------------|----------------------|
| NI | 9,155,577 | (22,236,684) |
| TA | <u>3,066,714,697</u> | <u>2,793,418,497</u> |
| % | <u><u>0.30%</u></u> | <u><u>-1%</u></u> |

E. RETURN ON OWNER'S EQUITY (NET INCOME/AVE. EQUITY) determines the ability of the company to generate income for its shareholders.

| | As of September 2014 | As of September 2013 |
|--------|----------------------|----------------------|
| NI | 9,155,577 | (22,236,684) |
| SHE | <u>1,231,778,529</u> | <u>1,218,646,942</u> |
| RETURN | <u><u>0.01</u></u> | <u><u>(0.02)</u></u> |

Other Information

The foregoing disclosure pertains to material events and uncertainties relative to the operations of the Company.

1. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships undertaken by the Company with unconsolidated entities or other persons during the reporting period.
2. There are no material commitments for capital expenditures.
3. There were no seasonal aspects that had a material effect on the financial condition or results of operations.

LORENZO SHIPPING CORPORATION
AR Aging Report
As of 30 September 2014

| Branch/Port | Total | 1-30days | 31-60 days | 61-90 days | 91-120 days | 121-150 days | 151 - 180 days | 181 - 210days | 211 - 365days | Over 1 yr |
|-------------|--------------------|--------------------|--------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Manila | 694,654,588 | 103,285,003 | 129,683,618 | 84,448,449 | 49,300,938 | 39,846,160 | 27,141,217 | 22,311,412 | 93,414,383 | 145,223,408 |
| Branches | 47,132,636 | 13,018,917 | 3,467,782 | 7,364,301 | 2,404,523 | (12,235,903) | 2,351,299 | 508,324 | (26,408,773) | 56,662,166 |
| Agencies | 103,174,886 | 13,764,560 | 14,676,696 | 11,842,215 | 14,045,159 | 8,055,414 | (934,111) | 7,533,122 | (19,543,061) | 53,734,892 |
| | 844,962,110 | 130,068,480 | 147,828,095 | 103,654,965 | 65,750,620 | 35,665,671 | 28,558,405 | 30,352,858 | 47,462,549 | 255,620,466 |

Source:
AR Aging Report from Credit and Collection Department